Economic and Fiscal Update

JULY 30, 2001

Hon. Gary Collins
Minister of Finance

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INTRODUCTION

Mr. Speaker. On May 16th, the people of British Columbia elected a new government and sent a clear signal:

On May 16, the people of British Columbia elected a new government and sent a clear signal. They voted for a new era of hope and opportunity. And this government is going to deliver.

They wanted change. They wanted their province to move in a new direction.

They wanted new leadership.

They voted for a new era of hope and opportunity. And this government is going to deliver.

British Columbia has incredible strengths, vast resources, the best location and the most talented people anywhere . . .

And British Columbians told us, on May 16th, that they were tired of seeing those advantages squandered.

Mr. Speaker, this province started the last decade as an economic powerhouse.

Within 10 years, we moved from the front of the pack to the back of the pack in almost every category that counts.

We went from one of the fastest-growing economies in Canada to one of the slowest-growing economies in Canada.

We went from a competitive tax environment to one that's uncompetitive in key areas.

We watched as people's real disposable incomes fell — year after year after year . . .

And — not surprisingly — the mood across the province went from hope and enthusiasm to disappointment, and even despair.

Mr. Speaker. The families in our communities deserve better. Our future as a province demands it.

And this government will return British Columbia to its rightful place as a leader in Canada and around the world.

We've promised bold and innovative change. We've promised a new era of hope and prosperity.

And today we take the next steps in fulfilling those commitments.

But before we move forward, we need to establish a starting point — a baseline for future accountability. And so I'd like to present the house with a high-level update of this year's economic and fiscal status.

ECONOMIC AND FISCAL UPDATE

Mr. Speaker, I want to be clear that this is just an update:

We will deliver our first full provincial budget on February 19, 2002 — including a comprehensive three-year fiscal plan.

The update I'm about to deliver is only an interim step — based on the provincial budget introduced on March 15th.

Since then, much has changed.

To revive our economy for the long-term, we've cut personal income taxes by 25 per cent — and I will be announcing further tax reductions today.

To revive our economy for the long-term, we've cut personal income taxes by 25 per cent — and I will be announcing further tax reductions today.

As well, the economic outlook for the United States, Europe and Asia has weakened — and that's had a negative effect on B.C. exports.

In summary, we have seen — since March 15th — our revenues decline by $1.85 billion to $22.7 billion.

At the same time, expenditures have risen by $455 million to $24.75 billion — mainly because we've chosen to include a number of expenditures that weren't fully recognized in the March budget.

Crown corporation income has strengthened slightly with a small net gain of $23 million.

All in all, this means our spending exceeds our revenues by $2.28 billion.

After the forecast allowance of $500 million, and the one-time-only joint-trusteeship agreement benefit of $1.28 billion, the overall summary accounts deficit is $1.5 billion . . .

And that is where the province's finances stand today.

Clearly, we face a challenge. A very serious fiscal challenge. And — Mr. Speaker — it must be overcome.

It *will* be overcome. Because we just can't afford to continue down the old road of poor planning, overspending, over-taxation and economic decline.

The Fiscal Review Panel made that clear when it issued its report last week.

The panel concluded that B.C. has a structural fiscal imbalance and, if we did nothing, we could face a deficit of more than $5 billion within three years.

The panel said that, if we kept doing what government did for the last decade, we would be in real trouble.

But, as you know, the panel wasn't entirely pessimistic. It also said our fiscal problems *can* be solved — with fundamental changes in the way government operates.

Mr. Speaker. We're taking that advice to heart.

We've already announced a Core Services Review of all public-sector programs to assess, in a logical, systematic way:

— what is government's business?
— how are we going to do it? and
— how can we do it better?

I expect to begin to see results from that review in the next few months. But that doesn't mean we're going to wait to take action.

Frankly, B.C. has waited long enough — and we know what we have to do to solve our fiscal problems.

Number one: we need to make our tax system competitive, as a first step to revitalizing economic growth.

And number two: we need to bring some discipline to spending, with strong, accountable fiscal management.

I'm announcing action on both fronts today — starting with a series of measures to get our economy growing again.

Clearly, we face a challenge. A very serious fiscal challenge. And — Mr. Speaker — it must be overcome. It will be overcome.

REBUILDING OUR ECONOMY

Mr. Speaker, over the last decade, our standard of living in B.C. has declined.

While other jurisdictions have enjoyed record growth:

- the average British Columbian's real disposable income has fallen by more than $1,700 a year;
- investment growth has lagged behind almost every other province; and
- too many business owners — and too many skilled workers — have felt compelled to move.

British Columbians won't stand for that any longer.

They won't stand by and watch all the investment, all the good jobs and all the businesses go to competing jurisdictions like Alberta and Washington State.

If we don't do something now, over time B.C. will wither away and end up being a have-not province — without the strength to support quality social programs.

If we don't do something now, over time B.C. will wither away and end up being a have-not province — without the strength to support quality social programs.

That's not what British Columbians want, or deserve.

It's not what this government wants either, Mr. Speaker — and we've already made that clear.

During the election, we promised dramatic personal income tax cuts within 90 days of taking office. We delivered on Day One — our first full day on the job — cutting personal income taxes by 25 per cent.

Starting in 2002, B.C. will have the lowest rates of any province in Canada for the bottom two income tax brackets — which apply to all taxable income under $60,000.

During the election, we also promised to make B.C. a more competitive place to invest and do business. And today, I'm pleased to announce a new series of tax reductions designed:

- to increase investment,
- to begin to revitalize industries like logging, mining and transportation,

- to strengthen emerging sectors such as high-technology, and
- to break down other barriers to economic growth.

Mr. Speaker, some of the current barriers to growth are tied to complex, sensitive issues that can only be resolved over time.

For example, uncertainty around aboriginal land claims, and questions about long-term land-use planning, continue to dampen economic growth and deter investment.

These issues will be addressed — in the months ahead — as part of our broader strategy to bring prosperity back to B.C.

In the meantime, we must address the tax issues responsible for driving investment and business away.

In the meantime, we must address the tax issues responsible for driving investment and business away.

For example, for many years, B.C. has been the only Canadian jurisdiction to charge provincial sales tax on production machinery and equipment — without offering any significant offset for business.

In a world where there's stiff competition for every investment dollar, that makes no sense. So we're axing the tax.

Effective midnight tonight, we are eliminating the PST on production machinery and equipment bought by eligible manufacturers — and by businesses in the logging, mining and energy sectors.

This exemption will replace the three per cent tax credit introduced last year.

It will save businesses $87 million this year and spur new investment — both in traditional resource industries and in emerging sectors such as high-tech manufacturing and software development.

Our next major tax cut will also encourage new investment, especially from overseas. And it'll make a real difference for British Columbians.

Mr. Speaker, the NDP introduced the corporate capital tax in 1992. It sent an immediate, negative message to Asian and other potential investors.

But this tax doesn't just affect big investors outside B.C.

It's also paid — indirectly — by small business and start-up companies through their rent or lease arrangements.

That won't be the case much longer, Mr. Speaker. We're phasing out the corporate capital tax on non-financial institutions.

The rate will be cut in half — from 0.3 per cent to 0.15 per cent — on September 1st this year. And the tax will be eliminated entirely on September 1st, 2002.

This move will free up more than $100 million — and leverage significant new investment in our province.

This move will free up more than $100 million — and leverage significant new investment in our province. It will also bring B.C. back in line with most of the rest of the developed world, where capital taxes are recognized as disincentives to growth.

As well, B.C.'s general corporate income tax rate is currently among the highest in Canada and is a significant deterrent to people doing business in B.C.

As a further step to make our taxes more competitive, we'll reduce the corporate rate by a full three percentage points — to 13.5 per cent — effective January 1st, 2002.

And we will strive to keep the rate competitive in the years ahead, as our economy grows.

I'm also announcing today a series of tax changes to strengthen the transportation and mining sectors. These include:

- Cutting the tax on domestic jet fuel — from five cents a litre to two cents a litre — to bring our domestic rate in line with the rate on international flights, and with the rates charged by our competitors;
- Reducing the tax rate on aviation fuel from three cents a litre to two cents a litre;
- Eliminating the seven per cent tax on bunker fuel used to run large ships — opening opportunities to supply more fuel to ships visiting B.C. ports and helping to attract more cruise ship business; and
- Introducing a new, 20 per cent flow-through share credit for mineral exploration, modelled on the federal credit. People who don't use flow-through shares will still be able to use the existing mineral exploration tax credit.

We're also reducing the surtax on new vehicles that penalizes people for buying the cars and trucks they need for work, business and family use.

This tax is added over and above the seven per cent PST.

The tax kicks in at $32,000 — placing an unfair burden on people who need large vehicles for work and safe travel — not to mention people who have a disability and need a van or larger vehicle just to get around.

So, effective midnight tonight, we're lifting some of that burden by raising the threshold to a more realistic level of $47,000.

In total, these tax changes will put $248 million back into our economy, this year alone.

In total, these tax changes will put $248 million back into our economy, this year alone.

Combined with our personal tax cuts — and other policy and regulatory changes spearheaded by the Minister of Competition, Science and Enterprise and the Minister of State for Deregulation . . .

. . . these moves to a more competitive tax system will start to renew our economy this year — and set the stage for even more significant growth next year.

Anyone who doubts that only has to look at the impact of our personal tax cut.

It took effect less than a month ago and, already, people are seeing our province in a new light.

Business confidence is up dramatically. So is consumer confidence.

In fact, the Conference Board of Canada has just reported a huge, 20 per cent increase in its B.C. consumer confidence index — compared to a rise of just three per cent nationwide.

We believe this confidence will translate into growth of 3.8 per cent in our economy next year — up significantly from the 2.2 per cent growth expected this year.

Tax cuts will allow businesses to once again compete, create jobs and attract investment. And they'll send a message — here at home, and around the world — that B.C. is back and ready to lead again.

BETTER FISCAL MANAGEMENT — A KEY TO SUPPORTING SOCIAL PROGRAMS

Mr. Speaker, leadership is about responsibility.

It calls for bold, decisive action — like we're taking today.

It also calls for humanity, compassion, understanding and empathy for people's needs and priorities.

Education. Health care.

These are the top priorities the people of this province have identified, again and again.

They're our priorities, too, Mr. Speaker, but I have to ask:

How does a province with the slowest-growing economy afford the best social programs in the country?

The answer is we can't — not in any sustainable way.

But a province with a vital, vibrant economy can afford high-quality public health care and education. That's why it's so essential to get our economy back on track.

But a province with a vital, vibrant economy *can* afford high-quality public health care and education. That's why it's so essential to get our economy back on track.

British Columbians want a top-notch education system.

We want our schools to be at the leading edge of educational achievement and excellence. And, with the innovative ideas being put forward by the Minister of Education, we will achieve that goal.

We want our public health care system to guarantee all patients the care they need, where they live and when they need it. And I know the Minister of Health Services and the Minister of Health Planning are working every waking hour, trying to make that happen.

This government has an unflagging commitment to these objectives. And today I'm pleased to reaffirm that — as promised — we will maintain funding for both health and education.

The health budget will be $9.5 billion this year. That's up $1.1 billion from last year.

The budget for K-12 education is $4.8 billion — up from $4.6 billion last year.

And we will increase those levels in the future, as we reap the rewards of new growth and prosperity.

The tax cuts I've just announced will help achieve prosperity — but tax cuts are only part of the answer.

It's just as important to properly manage the $68 million a day the government now spends on behalf of British Columbians.

We must ensure that every one of those dollars is spent wisely — and we have a strategy to make that happen.

We must ensure that every one of those dollars is spent wisely — and we have a strategy to make that happen.

Mr. Speaker, our strategy includes the Core Services Review I mentioned earlier — a top-to-bottom examination of every government program and service, to make sure we focus resources where they're needed most.

Once we've done the review, we will publish three-year budgets and service plans that tell people, clearly, what they can expect from our government.

We will set out, on budget day — beginning next February 19th:

- what we're going to do,
- how we're going to do it,
- what results we plan to achieve, and
- how much it'll cost.

We'll also provide health authorities, school boards and post-secondary institutions with three-year funding commitments — so they can plan and act with the certainty that only comes with long-term funding.

Finally, we'll implement an all-out attack on red tape, business subsidies and waste — and, thanks to our new Waste Buster Web site, we'll soon have four million sets of eyes seeking out, and reporting on, government waste across the province.

These steps will ensure we get the maximum value from every dollar.

Today, I am also tabling two pieces of legislation that form the legal framework for our fiscal management plan:

The *Balanced Budget and Ministerial Accountability Act* mandates a balanced budget by 2004/05 — and for every year thereafter.

It also makes us more financially accountable by tying ministers' salaries directly to our budget targets.

Starting April 1st, 2002, the government will automatically withhold 20 per cent of cabinet members' ministerial salaries.

Ministers will be able to earn back 10 per cent by meeting their ministry budget targets. The other 10 per cent will be paid out only if we meet our provincial budget target — providing a new level of both individual and collective political accountability.

The second piece of legislation I'm tabling today amends the existing *Budget Transparency and Accountability Act* — to ensure we move to fully implement generally accepted accounting principles.

In addition, it eliminates the traditional use of special warrants.

We have a duty, too, to deliver on our promises; to re-establish B.C.'s leadership role in Canada; to have the leading economy in Canada and the highest levels of private-sector investment anywhere.

Unlike previous governments, we don't believe in spending the people's money without due process and debate in this, the people's legislature.

And so we will permit the use of special warrants only:

- in the case of a natural disaster, such as an earthquake; or
- immediately following a B.C. election, for a brief period, to ensure the continued provision of public services.

Mr. Speaker, this is one more measure of this government's commitment to accountability.

We understand that what we call "government revenue" comes out of the pockets and purses of British Columbians.

We understand that the money isn't ours to spend however we please: it belongs to the people we serve, and we have a duty to manage it wisely.

We have a duty, too, to deliver on our promises; to re-establish B.C.'s leadership role in Canada; to have the leading economy in Canada and the highest levels of private-sector investment anywhere.

Will it be easy? No.

There will be bumps along the way. We will face difficult and contentious choices.

But nothing of real value comes without a challenge . . .

And I can't think of a challenge more deserving of our efforts than the challenge of rebuilding the province of British Columbia.

CONCLUSION

Mr. Speaker, I was born and raised in Saskatchewan.

Our resources in this province are immense and our people have unlimited talent.

Every summer, my family would come and visit B.C. — and, as far back as I can remember, this was where I wanted to be.

It wasn't just the mountains and rivers that spoke to me.

It wasn't just the cities, or the beaches, or the forests.

What I felt as a young person, visiting this province, was a sense of hope; a sense of incredible opportunity; a sense that this was a place where great things could happen.

It's saddened me in recent years — just as I know it's affected so many British Columbians — to see that sense of opportunity evaporate, and see the mood of the people turn from hope to cynicism.

Over the last 10 years, they've seen their paycheques shrink, their tax burden rise and their opportunities narrow — so who can blame them for feeling cynical?

A few people console themselves by saying: Oh well, at least we're not as badly off as so-and-so. Because, if you look hard enough, you'll always find some other jurisdiction that's faring worse.

But is that the way we want to measure ourselves in B.C.?

Is that as good as it gets?

I say no. British Columbians deserve better. And the fact is, we haven't been living up to our potential.

Our resources in this province are immense and our people have unlimited talent.

With sound fiscal management, clear priorities and bold, innovative changes . . . we can sweep aside that sense of hopelessness and

despair, and create the sense of optimism and energy that is British Columbia.

We can build upon the rubble of the last decade and re-establish this province as a place of opportunity.

And we can truly deliver on the promise of a new era of hope and prosperity for all of us . . . in the best province, in the best country, anywhere in the world.

And once again, we can be proud to say we are from British Columbia.

And once again, we can be proud to say we are from British Columbia.

Thank you.

Economic and Fiscal Update

July 30, 2001

BRITISH COLUMBIA

Ministry of Finance

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BRITISH COLUMBIA

July 30, 2001

As required by Section 7(d) of the *Budget Transparency and Accountability Act* (BTAA), I am confirming that this document contains the following elements:

— The economic and fiscal forecasts for 2001/02, which are detailed in Part 1 (British Columbia Economic Review and Outlook) and Part 2 (2001/02 Fiscal Update) of the *Economic and Fiscal Update.*

— All material economic, demographic, taxation, accounting policy and other assumptions underlying the 2001/02 economic, revenue, expenditure, deficit and debt forecasts are also disclosed in this document. Although not required by the BTAA, financial risks and sensitivities associated with changes in key assumptions are also disclosed.

— The report on the current advice of the Minister's Economic Forecast Council on economic growth, including the range of forecasts for 2001 and 2002, is found in a topic box on Page 16.

As required under section 7(e) of the BTAA, the adjustment to the most likely forecast of the 2001/02 deficit is also disclosed. The adjustment is detailed in the Forecast Allowance topic box on page 24.

As government responds to the Fiscal Review Panel's recommendations and undertakes the core services review, there may be significant adjustments to the fiscal plan for 2001/02. As these decisions are made, their effect on the fiscal plan will be disclosed in the Quarterly Reports.

I would like to thank staff in the Ministry of Finance, other ministries and Crown corporations, for their assistance in compiling these revised economic and financial forecasts.

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Deputy Minister and
Secretary to Treasury Board

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Part 1 . BRITISH COLUMBIA ECONOMIC REVIEW AND OUTLOOK

Overview[1]

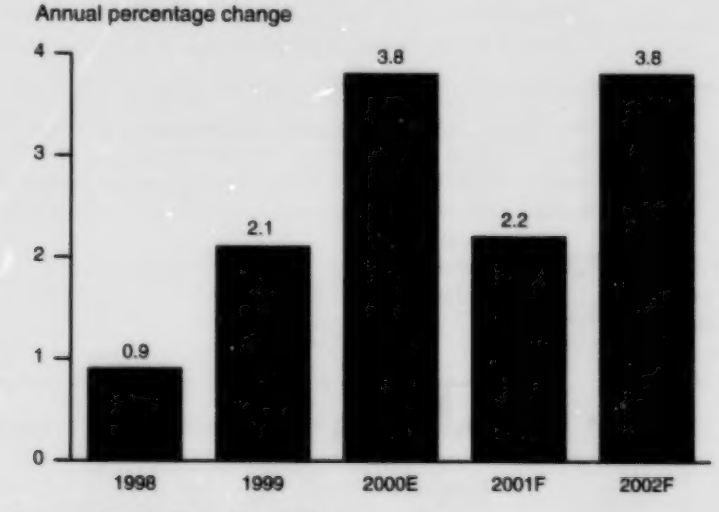
BC's consumer and housing sectors are growing steadily . . .

British Columbia's economic performance has been mixed so far this year as external conditions have weakened. While the consumer and housing sectors are growing steadily, export and labour markets are not performing as well as expected in the March 15 Budget.

. . . while conditions abroad have been weaker than anticipated

Growth abroad has been weaker than anticipated, and prices for many of British Columbia's exports are lower than forecast. However, long-term interest rates and the exchange rate have been lower than forecast as well.

Chart 1.1 British Columbia Real GDP Growth



Source: Statistics Canada and Ministry of Finance

British Columbia's economy is forecast to grow 2.2 per cent in 2001 . . .

The weaker external environment has resulted in a lower economic forecast for British Columbia for 2001. This will be partially offset by the effects of the personal income tax cuts that were announced on June 6, 2001, and others announced in this update. The lower personal income taxes should provide some stimulus to consumer demand for the rest of the year. Overall, growth of 2.2 per cent is forecast for 2001.

. . . and 3.8 per cent in 2002

Growth of 3.8 per cent is forecast for 2002, up sharply from the 2.9 per cent in the March 15 Budget. Business and personal tax reductions are expected to lead to an improved business climate and boost investment. Combined with a recovery in the United States, this is expected to place British Columbia's economic growth rate above the national average.

[1] The British Columbia Economic Review and Outlook uses data available as of July 18, 2001.

Uncertainty surrounding the timing and strength of the United States recovery and the outcome of the Canada-United States softwood lumber countervail hearing pose the main risks to the forecast. Upside potential arises from the tax cuts and an improved investment climate, which could lead to higher than forecast economic growth.

A survey of the Minister of Finance's Economic Forecast Council was undertaken in June, prior to the business tax cuts announced in the July 30 Update. The survey indicates a consensus forecast of 2.1 per cent this year and 3.2 per cent in 2002 (see Topic Box on page 16).

The External Environment

Total exports of goods and services make up over 40 per cent of British Columbia's gross domestic product (GDP). About 70 per cent of these are destined for international markets, mainly to the United States, while 30 per cent are consumed in the rest of Canada.

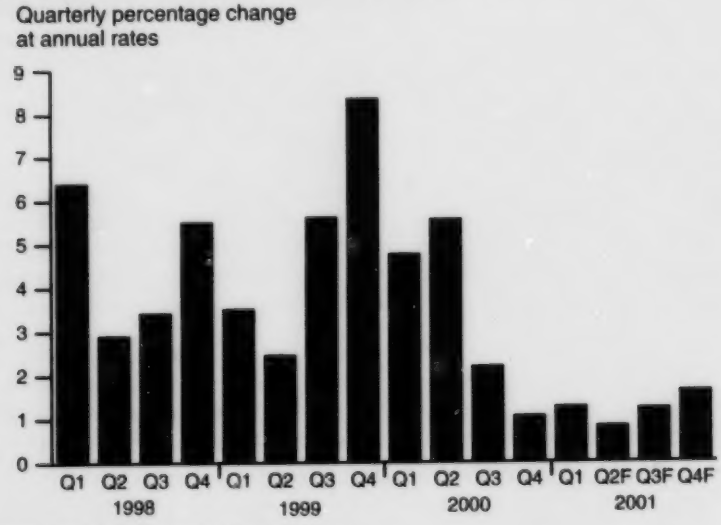
The United States is leading a global economic slowdown, which is being felt in British Columbia. So far the slowdown is more pronounced and rapid than had been expected in the March 15 Budget.

The United States' economy, which had been operating at or above capacity during the late nineties, slowed rapidly in the last two quarters of 2000. Growth on an annualized basis fell from 5.6 per cent in the second quarter of 2000 to 1.2 per cent in the first quarter of 2001. The slowdown has been concentrated in the manufacturing sector while the consumer sector has remained a source of relative strength.

The United States slowdown will extend at least into the third quarter of 2001

A United States slowdown had been anticipated in the March 15 Budget but had been expected to last only two quarters. It now appears that it will extend at least into

Chart 1.2 U.S. Quarterly Real GDP Growth



Source: Statistics Canada and Ministry of Finance

the third quarter of 2001. The Federal Reserve Board has reacted swiftly by easing monetary conditions which will hopefully allow the United States to avoid any significant further deterioration.

Outlook: The United States economy is now expected to grow 1.5 per cent this year, compared to 1.8 per cent in the March 15 Budget.

The slowdown has spilled over to Asia

The slowdown has spilled over to Asia, which has seen demand for many of its exports fall as a result of declining production in the United States and Europe.

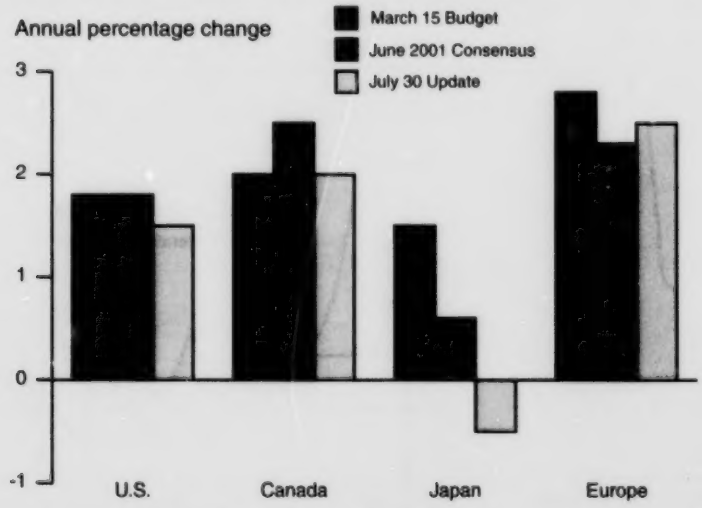
Japan continues to wrestle with structural problems in the business sector and persistent price deflation, which have resulted in a decade of economic weakness. In the past, the Japanese government has responded with a program of expansionary government spending but this has proven ineffective, and left Japan with very high debt levels and little fiscal room to manoeuvre. The recent election of a reform-minded prime minister provides some hope for future improvement, but little change is expected in the near term.

The Japanese economy is now expected to decline 0.5 per cent in 2001.

Europe is also feeling the effects of the United States slowdown. Quarterly growth at an annual rate was 3.6 per cent in the first quarter of 2000 but has fallen to 2.0 per cent in the first quarter of 2001. The European Central bank remains committed to its inflation target and as yet has supplied little stimulus to member economies.

Recent economic troubles in Argentina may spill over to other Latin American countries but this is not expected to significantly impact the British Columbia economy.

Chart 1.3 International Growth Forecasts, 2001



Source: Consensus Economics Inc. and Ministry of Finance

The impact of the U.S. slowdown will be felt across Canada. Trade with the United States has become increasingly important to all provinces over the last decade, reflecting the trade-liberalization initiatives of the last few years, as well as stronger economic growth. Ontario, in particular, relies heavily on trade in autos and parts with the U.S. British Columbia's trade is more diversified, and so the province is somewhat less exposed to a U.S. slowdown.

Outlook: Canada's economy is expected to slow in the second half of 2001, but on average will do better than the U.S. with growth of 2.0 per cent for the year. This is unchanged from the March 15 budget. For 2002, Canada's economic performance matches that of the U.S. at 2.5 per cent.

Table 1.1 Key Economic Assumptions

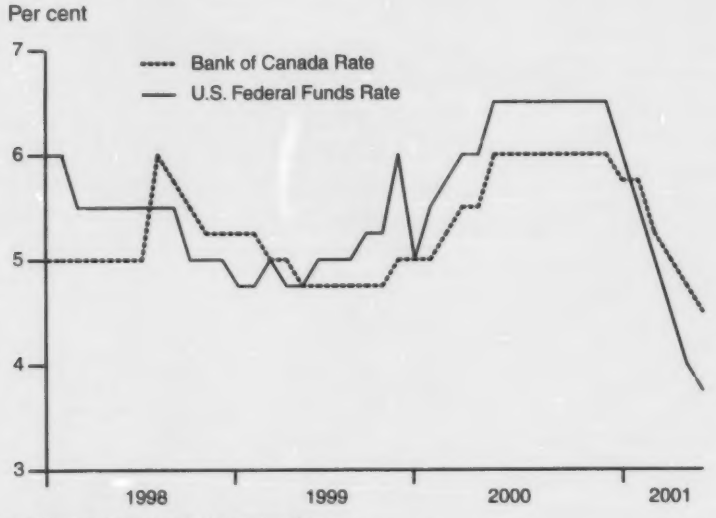
	2001		2002	
	March 15 Budget	July 30 Update	March 15 Budget	July 30 Update
	Percentage change unless otherwise noted			
Canada real GDP	2.0	2.0	2.5	2.5
U.S. real GDP	1.8	1.5	2.5	2.5
Japan real GDP	1.5	-0.5	2.0	1.0
Europe real GDP	2.8	2.5	2.7	2.7
Short term interest rates[1]	4.8%	4.4%	5.0%	4.5%
Long term interest rates[2]	5.3%	5.8%	5.3%	6.1%
U.S. cents/Cdn. $	66.4	65.5	68.0	67.1

[1] Canadian 3-month treasury bills.
[2] Canadian Government bonds over 10 years.

Financial Markets and Commodity Prices

The Federal Reserve Board in the United States has reacted to the economic slowdown by reducing its federal funds rate 2.75 percentage points since January 1 of this year. The Bank of Canada has followed suit but has cut its bank rate less rapidly, a total of 1.50 percentage points from December levels. The July 30 Update assumes at least a further quarter-point cut in the third quarter by the Federal Reserve Board.

Chart 1.4 Central Bank Rates



Source: Bank of Canada and U.S. Federal Reserve

The forecast assumes a modest appreciation of the Canadian dollar

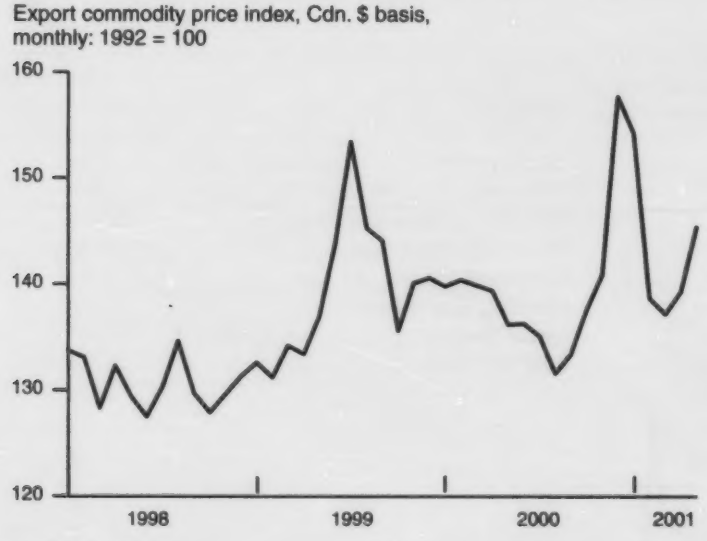
The Canadian dollar started 2001 on a downward trend compared to the United States dollar. The dollar flirted with an all-time low in April but has since risen. Given the interest rate spread between Canada and the United States, the forecast assumes a modest appreciation of the Canadian dollar over the next several years.

Lumber prices began the year below $US 200 but rose to over $US 360 in May, before levelling off to around $US 270 by mid-July. The end of the Softwood Lumber Agreement on April 1 has created uncertainty in the industry, and British Columbia producers held back on shipments to the United States in order to avoid potential retroactive tariffs. The forecast assumes a modest increase in the average price of lumber to $US 260 this year, with a slight decline expected in 2002.

Pulp prices have been falling since the beginning of the year, primarily reflecting reduced North American demand for paper. The forecast assumes pulp prices will decline in 2001 and 2002.

Electricity and natural gas prices have fallen from their winter peaks but remain high in historical terms. The market for both these energy sources is heavily influenced by conditions in the United States, and the recent Federal Energy Regulatory Commission decision to impose price caps on electricity sold in the western United States market will likely constrain future electricity prices. The forecast assumes price declines in both natural gas and electricity markets.

Chart 1.5 British Columbia Export Commodity Prices



Source: Ministry of Finance

The Ministry of Finance Export Commodity Price Index is a weighted average of the prices of 17 commodity groups. As seen in Chart 1.5, British Columbia's export prices have fallen from their December peak, but are still up 2.8 per cent to May of 2001 from the previous year.

The British Columbia Economy

Tax cuts should provide additional stimulus to the economy

The provincial economy has shown mixed results in the face of weaker external conditions. While manufacturing has declined, consumer spending shows steady growth and housing starts continue to strengthen from low levels. The new tax cuts should provide some additional stimulus in the second half of 2001.

Real GDP is expected to increase by 2.2 per cent in 2001, down slightly from the 2.4 per cent projected in the March 15 Budget. Further reductions in personal income taxes and cuts to business taxes are forecast to boost the provincial economy in 2002, with growth strengthening to 3.8 per cent.[2]

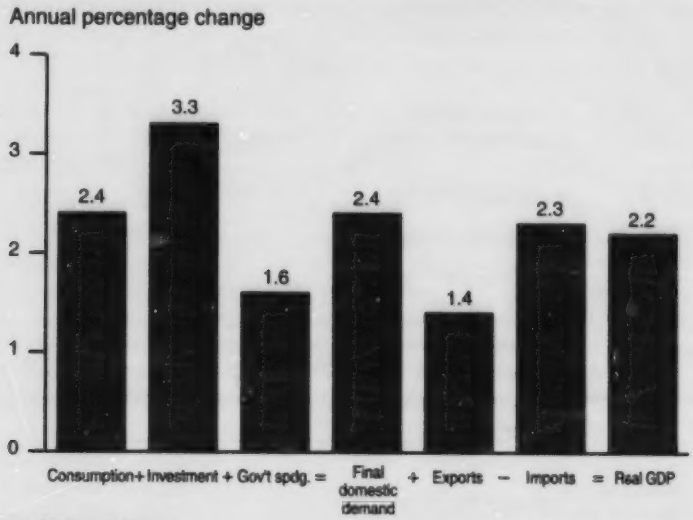
Nominal GDP is forecast to increase by 3.6 per cent this year. In 2002, declining prices for energy and other exported commodities are expected to produce an overall 2.1 per cent decline in export prices, resulting in nominal GDP growth of 3.4 per cent.

Table 1.2 Key Economic Indicators

	2001		2002	
	March 15 Budget	July 30 Update	March 15 Budget	July 30 Update
	Percentage change unless otherwise noted			
Real GDP	2.4	2.2	2.9	3.8
Nominal GDP	4.0	3.6	3.4	3.4
Employment	2.2	1.5	3.1	3.0
Unemployment Rate	7.4%	7.2%	7.2%	7.2%
Net In-migration (persons)	29,600	26,900	45,600	50,700
Personal Income	3.4	3.2	3.8	3.9
Corporate Profits (pre-tax)	4.0	5.0	-2.5	0.0
Housing Starts (units)	15,300	15,600	17,200	16,660
Retail Sales	3.5	4.0	3.8	4.2
Inflation Rate	1.7%	2.0%	1.6%	1.6%

[2] Before incorporating the effects of the personal and business tax reductions, the British Columbia economy was forecast to grow 1.8 per cent in 2001 and 2.7 per cent in 2002.

Chart 1.6 British Columbia Real GDP Growth Forecast, 2001

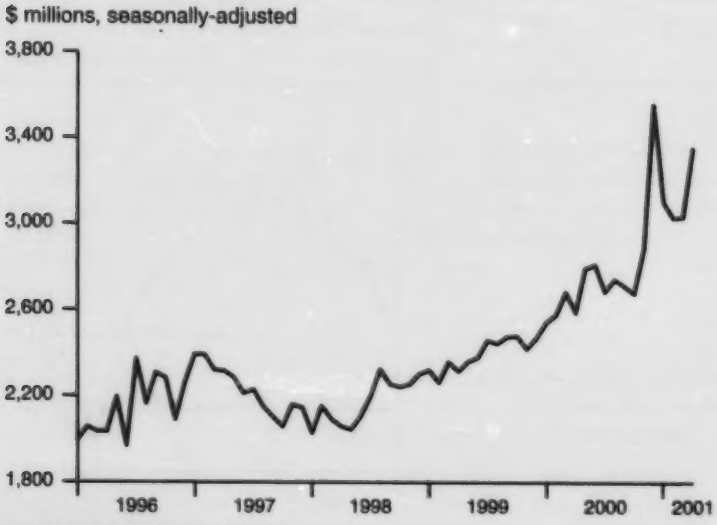


Source: Ministry of Finance

External Trade

The external environment and especially the United States economy have a very large impact on the British Columbia economy. Two-thirds of British Columbia exports to other countries go to the United States. Japan also has a significant impact, receiving about 15 per cent of British Columbia exports.

Chart 1.7 Value of British Columbia International Merchandise Exports



Source: BC STATS and Statistics Canada

Through April, the value of international merchandise exports was up 20.4 per cent from 2000. The rise in exports was due to increased energy prices in the United States. Excluding energy products, the value of exports to all countries showed a 4.5 per cent decline.

Exports from British Columbia are expected to increase 1.4 per cent in 2001

Outlook: Real (price adjusted) exports from British Columbia to all destinations are expected to increase by 1.4 per cent in 2001, lower than the 3.0 per cent March forecast, due to slower growth in the United States and Japan. Export growth is forecast to increase to 4.2 per cent in 2002 as the world economy returns to trend growth.

This year, export prices are expected to increase 3.0 per cent, unchanged from March. In 2002, export prices are forecast to fall 2.1 per cent as prices for pulp, newsprint, lumber, natural gas and electricity decline.

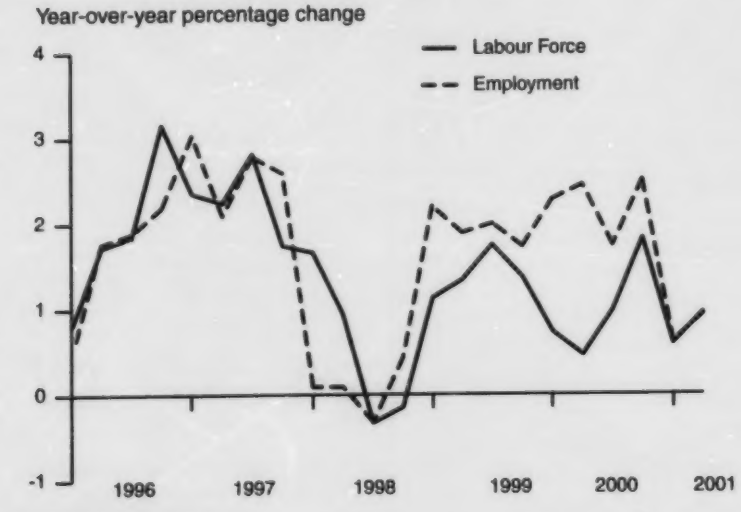
Real imports into the province are expected to increase by 2.3 per cent in 2001 and by 3.5 per cent in 2002. The growth of imports primarily reflects growing demand for consumer products and investment goods, which are generally manufactured outside the province.

Labour Market

So far in 2001, labour markets have been soft, with seasonally-adjusted June employment remaining below December 2000 levels. On a year-to-date basis, employment is up 0.8 per cent from the first half of 2000 with growth strongest in the Northeast development region and weakest in the Vancouver Island/Coast development region. With higher growth in part-time employment and less overtime being worked, average hours worked in the first six months of 2001 have decreased 1.9 per cent over last year. Nevertheless, the average weekly wage rate is up 2.5 per cent through May, and first quarter total labour income is 4.9 per cent higher than in 2000.

The unemployment rate for the first six months of 2001 was unchanged from 2000, as slow labour force growth has matched employment.

Chart 1.8 Employment and the Labour Force



Source: Statistics Canada

Employment is expected to grow 1.5 per cent in 2001

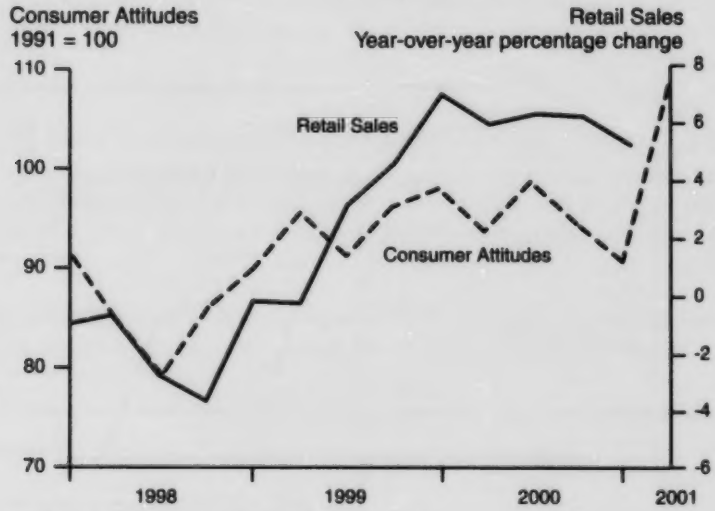
Outlook: Improved job growth through year-end is expected to result in employment growth of 1.5 per cent this year, down from the March forecast of 2.2 per cent. However, the unemployment rate forecast of 7.2 per cent for 2001 is lower than the March forecast, reflecting continued slow growth of the labour force. Next year 3.0 per cent employment growth is forecast, while the unemployment rate is expected to remain at 7.2 per cent.

Consumer Spending

Consumer attitudes are up for the first half of 2001

Consumer spending has been a bright spot throughout North America so far in 2001. In British Columbia, seasonally-adjusted retail sales were up 5.6 per cent through April. Durable goods, which are one of the first areas where consumers tighten spending, were up 3.8 per cent from 2000 levels. The Conference Board of Canada index of consumer attitudes for British Columbia is up for the first half of 2001, and up a substantial 20 per cent in the second quarter of 2001 compared to the first quarter.

Chart 1.9 British Columbia Consumer Sector



Source: Statistics Canada and Conference Board of Canada.

Retail sales growth of 4.0 per cent is forecast

Outlook: On retail sales growth of 4.0 per cent, consumer spending is now forecast to increase 2.4 per cent in 2001, up from 1.8 per cent in the March forecast. The recent provincial personal income tax cut is expected to raise personal disposable income, translating into stronger consumer confidence and higher spending. Next year, consumer expenditures are expected to grow 2.9 per cent.

Business Activity and Investment

Manufacturing shipments from the province are down 6.9 per cent so far this year. The United States slowdown is having a noticeable effect on manufacturers due to the sizable portion of British Columbia goods dependent on United States markets.

Business bankruptcies are up 8.1 per cent through May, and a series of disappointing profit announcements have dampened expectations. Statistics Canada's second quarter business conditions survey showed that British Columbia manufacturers were slightly less optimistic about the prospects for the next quarter than they have been recently.

Business investment appears to be picking up

Despite these indicators, business investment appears to be picking up. Non-residential building permits during the January to May period have increased 12.7 per cent over the same period last year.

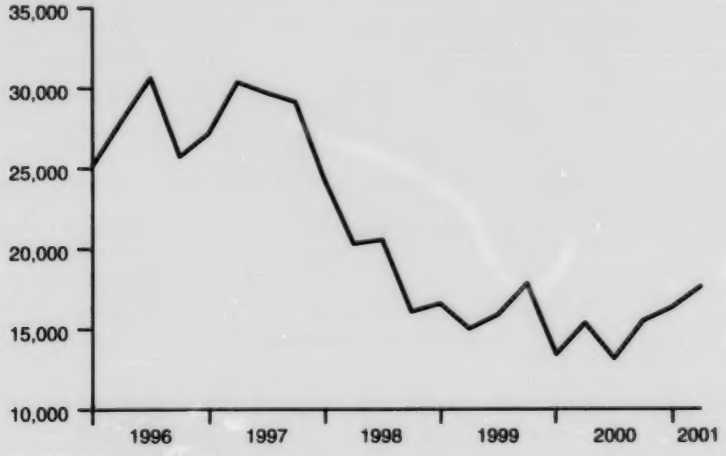
Because of weak population growth, British Columbia home construction has been slow for several years. However, housing starts are now showing some signs of improvement. Through June, total housing starts in the province are up 18 per cent from last year's levels and the upturn in residential building permits suggests a continuation of this trend.

The upturn in the housing market has affected not just starts but the market for existing homes as well. Multiple Listing Service data show that sales of existing homes are up 15.6 per cent through May compared to last year. All aspects of the housing market have benefited from monetary easing by the Bank of Canada, which has led to lower mortgage rates for homebuyers.

Statistics Canada's survey of Public and Private Investment suggests an increase in total British Columbia investment of 3.5 per cent for 2001 compared to 2000. This is a significant increase over the February survey, which showed a 1.2 per cent decline.

Chart 1.10 British Columbia Housing Starts

Units, seasonally-adjusted annual rates



Source: Canada Mortgage and Housing Corporation

Corporate pre-tax profits are projected to grow 5.0 per cent this year

Outlook: Corporate pre-tax profits are projected to grow 5.0 per cent this year, but remain flat next year as export prices decline. The expected decline in 2002 was more pronounced in the March forecast, despite a generally higher forecast of export prices. The relative improvement in the current forecast is a result of business and personal tax decreases. Overall, capital investment is projected to increase 3.3 per cent in real terms this year, with growth in machinery and equipment investment of 5.0 per cent. Non-residential construction investment is forecast to increase 3.2 per cent this year, while residential investment growth is projected at 4.2 per cent.

Reductions in business taxes are expected to stimulate business investment

Reductions in business taxes include the corporation income tax, the corporation capital tax and the social service tax on certain investment goods. These tax reductions are designed to generate a more competitive tax environment, which in turn will stimulate investment and the overall performance of the provincial economy. Investment is forecast to grow 6.2 per cent in 2002, spurred by higher machinery and equipment purchases and non-residential construction activity.

Improved economic performance and a more competitive tax environment should also help to draw people to British Columbia. In-migration is expected to rise to 26,900 this year and to 50,700 in 2002, as interprovincial flows return to the positive levels of the mid 1990's.

Housing starts are projected to rise to 15,600 units for 2001

In response to higher in-migration and some pent-up demand, housing starts are projected to rise to 15,600 units this year, increasing to 16,660 units in 2002.

Government Sector

Outlook: In inflation-adjusted terms, government spending at federal, provincial and local levels is expected to rise 1.6 per cent in 2001, primarily as a result of increased federal and provincial government spending.

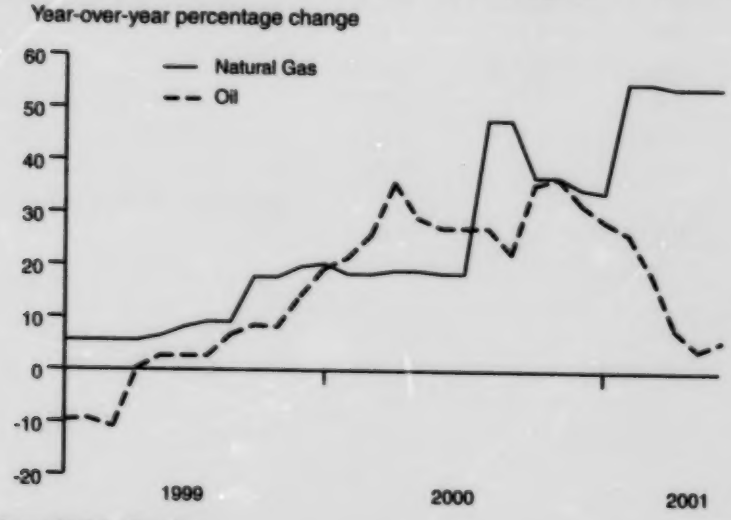
Inflation

During the first five months of the year, consumer price inflation in British Columbia averaged 1.9 per cent. Much of the increase in the overall price level can be attributed to higher energy prices, primarily natural gas and gasoline, as well as higher prices for fresh fruit and vegetables. Energy prices appear to be heading down after recent peaks but are expected to remain relatively high in the near term.

Inflation of 2.0 per cent is forecast in 2001

Outlook: The inflation rate is forecast to increase to 2.0 per cent in 2001, up from 1.7 per cent in the March forecast. As energy prices ease off next year, the inflation rate is projected to fall to 1.6 per cent.

Chart 1.11 British Columbia Consumer Price Inflation



Source: Statistics Canada

Forecast Uncertainties

The extent of the U.S. downturn is a major downside risk to the forecast.

The extent of the United States downturn and its impact on British Columbia and other provinces are the main risks to the forecast, in particular if the United States slowdown is longer than expected. The policy responses to the slowdown by the United States and Canadian governments, as well as the Federal Reserve Board and the Bank of Canada, are key to a stable recovery. Larger than expected interest rate reductions could provide additional short-term stimulus, though at a potential cost of increased medium term economic volatility.

The outlook for export prices provides another area of forecast risk due to the volatility of natural gas and electricity prices, and uncertainty surrounding the outcome of the softwood lumber dispute with the United States.

Deregulation and business tax cuts should lead to an improved investment climate . . .

Deregulation and business tax cuts should lead to an improved investment climate and rising business and consumer confidence in British Columbia. In combination, these provide upside potential to the forecast expansion of consumer spending and business investment.

The Medium Term Outlook 2003–2005

Real GDP growth in both Canada and the United States are forecast to average just under 3.0 per cent in the medium term. The combined impact of tax cuts and the recovery in Canada and the United States is expected to result in continued economic expansion in British Columbia.

Strong growth in investment coupled with robust consumer and residential sectors should give British Columbia solid economic growth over the 2003–2005 period. This economic activity in turn is expected to produce strong labour income growth and a much-improved performance on the corporate profit front. Job creation should remain on track and, coupled with renewed growth in the labour force, the unemployment rate is forecast to gradually decline to 6.5 per cent by the end of the period.

. . . and rising business and consumer confidence in British Columbia

The improved economic climate is expected to draw more people to the province, increasing the population by an average of 1.7 per cent a year. After lagging the country in the late 1990s, provincial real GDP is forecast to grow at an average rate of nearly 3.0 per cent a year for the period 2003–2005, equal to the forecast Canadian average for the period.

TABLE 1.3
BRITISH COLUMBIA ECONOMIC OUTLOOK

	1999	2000	Forecast 2001	Forecast 2002
Gross Domestic Product (current dollars; percentage change)	4.2	5.8[1]	3.6	3.4
Real Gross Domestic Product (1992 dollars; percentage change)	**2.1**	**3.8[1]**	**2.2**	**3.8**
Consumer Expenditure	2.6	4.2	2.4	2.9
Capital Investment	8.0	2.8	3.3	6.2
Government Expenditure	2.0	1.4	1.6	1.7
Exports of Goods and Services	6.7	6.5	1.4	4.2
Imports of Goods and Services	5.4	5.3	2.3	3.5
Inventory Investment (change in billions of 1992 dollars)	0.2	0.1	0.3	0.5
Minister's Economic Forecast Council — Real GDP growth	**—**	**3.0**	**2.1**	**3.2**
Population July 1 (percentage change)	0.8	0.9	0.9	1.2
Net In-migration	24,512	17,892	26,900	50,700
Interprovincial	−8,129	−14,123	−8,600	17,400
International	32,641	32,015	35,500	33,300
Labour Force (thousands)	2,079	2,100	2,132	2,195
(percentage change)	1.4	1.0	1.5	3.0
Employment (thousands)	1,906	1,949	1,978	2,038
(percentage change)	1.9	2.2	1.5	3.0
Unemployment Rate (per cent)	8.3	7.2	7.2	7.2
Retail Sales (millions of current dollars)	33,684	35,821	37,250	38,810
(percentage change)	1.9	6.3	4.0	4.2
Labour Income[2] (millions of current dollars)	63,454	67,490	69,720	72,580
(percentage change)	2.4	6.4	3.3	4.1
Corporate Pre-tax Profits (millions of current dollars)	8,808	9,150[1]	9,610	9,610
(percentage change)	23.7	3.9	5.0	0.0
Housing Starts (units)	16,309	14,418	15,600	16,660
(percentage change)	−18.2	−11.6	8.2	6.8
Consumer Price Index (1992=100)	111.2	113.3	115.5	117.4
(percentage change)	1.1	1.9	2.0	1.6
BC Goods and Services Export Prices (Cdn $; percentage change)	2.3	2.6	3.0	−2.1

[1] Ministry of Finance estimates.
[2] Wages, salaries and supplementary labour income.

TABLE 1.3
BRITISH COLUMBIA ECONOMIC OUTLOOK — *Continued*

	1999	2000	Forecast 2001	Forecast 2002
Key Assumptions:				
Economic Growth (per cent)				
Canada	4.5	4.7	2.0	2.5
United States	4.2	5.0	1.5	2.5
Japan	0.8	1.5	−0.5	1.0
Europe	2.6	3.4	2.5	2.7
Housing Starts (percentage change)				
Canada	9.1	1.1	4.6	−0.6
United States	3.1	−4.5	0.8	0.0
Japan	1.4	1.3	−3.2	0.0
Industrial Production (annual percentage change)				
United States	4.1	5.6	0.0	2.5
Japan	1.0	5.4	−1.0	1.5
Consumer Prices (annual percentage change)				
Canada	1.7	2.7	2.9	2.0
United States	2.2	3.4	3.1	2.6
Canadian Interest Rates (per cent; annual average)				
3-month Treasury Bills	4.7	5.5	4.4	4.5
10-year and over Government of Canada bonds	5.7	5.9	5.8	6.1
United States Interest Rates (per cent; annual average)				
3-month Treasury Bills	4.6	5.8	3.6	3.5
10-year and over U.S. Government bonds	6.1	6.0	5.2	5.7
U.S. cents/Canadian dollar	67.3	67.3	65.5	67.1
Commodity Prices				
Spruce-Pine-Fir Lumber (U.S. $/1,000 board feet)	342	255	260	250
Pulp (U.S. $/tonne)	521	681	563	506
Newsprint (U.S. $/tonne)	513	564	608	600
Copper (U.S. $/lb.)	0.72	0.82	0.79	0.80
Lead (U.S. $/lb.)	0.23	0.21	0.21	0.20
Zinc (U.S. $/lb.)	0.49	0.51	0.46	0.55
Gold (U.S. $/oz.)	279	279	270	300
Natural Gas (Cdn. $/gigajoule at WEI inlet)	4.37	4.45	6.79	4.50
Coal (U.S. $/tonne)[2]	41	41	37	37

[1] Ministry of Finance estimates.
[2] Weighted average of metallurgical and thermal coal prices.

TABLE 1.4
CURRENT ECONOMIC STATISTICS

	Latest Period		Year-to-Date Average		
			2000	2001	Change
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a., thousands)	June	1,957	1,944	1,959	0.8%
Unemployment rate (s.a., per cent)	June	7.0	7.0	7.0	0.0
In-migration	Q1	8,238	5,548	8,238	2,690
Interprovincial (persons)	Q1	(2,406)	(3,215)	(2,406)	809
International (persons)	Q1	10,644	8,763	10,644	1,881
Wages and salaries (s.a., $ millions)	Mar	5,122	4,884	5,122	4.9%
Average weekly wage rate	May	650	631	647	2.5%
CONSUMER SECTOR					
Retail sales (s.a., $ millions)	April	3,072	2,926	3,090	5.6%
Car and truck sales (s.a., units)	May	14,894	14,102	13,784	−2.3%
Housing starts (all areas, s.a., annual rate)	June	19,000	14,367	16,950	18.0%
Existing home sales (s.a.)	May	5,644	4,477	5,174	15.6%
Building permits (s.a., $ thousands)	May	450	368	443	20.1%
British Columbia consumer price index (annual per cent change)	May	2.6	1.4	1.9	0.5
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (s.a., $ millions)	April	3,350	2,597	3,128	20.4%
Manufacturing shipments (s.a., $ millions)	May	3,043	3,204	2,984	−6.9%
Lumber production (thousand cubic metres)	April	2,780	2,894	2,785	−3.8%
Pulp and paper production (thousand tonnes)	May	614	714	671	−6.0%
Coal production (thousand tonnes)	April	2,348	2,206	2,294	4.0%
Natural gas production (million cubic metres)	Mar	2,288	2,014	2,160	7.3%
Copper production (million kg)	April	21.9	21.9	22.7	3.7%
TOURISM					
Entries of U.S. and overseas residents (thousands)	April	532	507	532	4.9%
B.C. Ferry passengers to/from Vancouver Island (thousands)	June	1,000	795	801	0.8%
COMMODITY PRICES					
Lumber (U.S. $/thousand board feet)	June	257	301	243	−19.3%
Pulp (U.S. $/tonne)	June	600	653	618	−5.4%
Newsprint (U.S. $/tonne)	June	615	534	616	15.4%
Copper (U.S. $/lb.)	June	0.79	0.80	0.77	−3.8%
Electricity (Mid Columbia, on-peak, US $/Mwh)	June	55.6	31.7	212.3	569.7%
B.C. export commodity price index (Cdn. $ Index: 1992=100)	May	146.0	139.1	143.0	2.8%
FINANCIAL DATA					
Canadian dollar (U.S. cents)	June	65.80	68.10	65.17	−2.93
Canadian prime rate (per cent)	June	6.25	6.99	6.80	−0.19
Canadian treasury bills (per cent)	June	4.23	5.3	4.67	−0.63
Treasury bill spread — Canada minus U.S. (per cent)	June	0.77	−0.33	0.47	0.80

s.a. — seasonally adjusted.

TABLE 1.4
CURRENT ECONOMIC STATISTICS

	Latest Period		Year-to-Date Average		
			2000	2001	Change
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a., thousands)	June	**1,957**	1,944	1,959	0.8%
Unemployment rate (s.a., per cent)	June	**7.0**	7.0	7.0	0.0
In-migration	Q1	**8,238**	5,548	8,238	2,690
Interprovincial (persons)	Q1	**(2,406)**	(3,215)	(2,406)	809
International (persons)	Q1	**10,644**	8,763	10,644	1,881
Wages and salaries (s.a., $ millions)	Mar	**5,135**	4,884	5,122	4.9%
Average weekly wage rate	May	**650**	631	647	2.5%
CONSUMER SECTOR					
Retail sales (s.a., $ millions)	April	**3,072**	2,926	3,090	5.6%
Car and truck sales (s.a., units)	May	**14,694**	14,102	13,784	-2.3%
Housing starts (all areas, s.a., annual rate)	June	**19,000**	14,367	16,950	18.0%
Existing home sales (s.a.)	May	**5,644**	4,477	5,174	15.6%
Building permits (s.a., $ thousands)	May	**450**	368	443	20.1%
British Columbia consumer price index (annual per cent change)	May	**2.5**	1.4	1.9	0.5
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (s.a., $ millions)	April	**3,350**	2,597	3,128	20.4%
Manufacturing shipments (s.a., $ millions)	May	**3,043**	3,204	2,984	-6.9%
Lumber production (thousand cubic metres)	April	**2,780**	2,894	2,785	-3.8%
Pulp and paper production (thousand tonnes)	May	**614**	714	671	-6.0%
Coal production (thousand tonnes)	April	**2,349**	2,206	2,294	4.0%
Natural gas production (million cubic metres)	Mar	**2,282**	2,014	2,160	7.3%
Copper production (million kg)	April	**21.5**	21.9	22.7	3.7%
TOURISM					
Entries of U.S. and overseas residents (thousands)	April	**596**	507	532	4.9%
B.C. Ferry passengers to/from Vancouver Island (thousands)	June	**1,026**	795	801	0.8%
COMMODITY PRICES					
Lumber (U.S. $/thousand board feet)	June	**297**	301	243	-19.3%
Pulp (U.S. $/tonne)	June	**525**	653	618	-5.4%
Newsprint (U.S. $/tonne)	June	**615**	534	616	15.4%
Copper (U.S. $/lb.)	June	**0.73**	0.80	0.77	-3.8%
Electricity (Mid Columbia, on-peak, US $/Mwh)	June	**55.6**	31.7	212.3	569.7%
B.C. export commodity price index (Cdn. $ Index: 1992=100)	May	**145.0**	139.1	143.0	2.8%
FINANCIAL DATA					
Canadian dollar (U.S. cents)	June	**65.60**	68.10	65.17	-2.93
Canadian prime rate (per cent)	June	**6.25**	6.99	6.80	-0.19
Canadian treasury bills (per cent)	June	**4.28**	5.3	4.67	-0.63
Treasury bill spread — Canada minus U.S. (per cent)	June	**0.77**	-0.33	0.47	0.80

s.a. — seasonally adjusted.

THE ECONOMIC FORECAST COUNCIL SURVEY, JUNE 2001

Background

The Minister of Finance is required by the *Budget Transparency and Accountability Act* to seek the advice of the Economic Forecast Council (the Council) on the outlook for the provincial economy, and to present their forecasts at the same time as the *Estimates*.

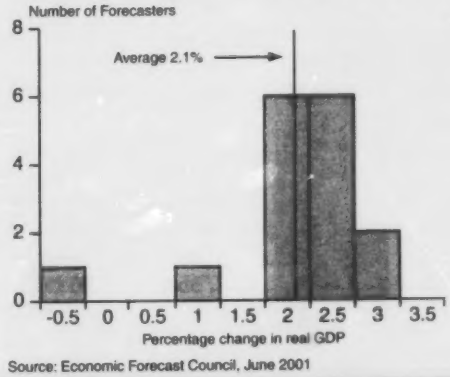
Since the January meeting of the Council there have been several changes in both the external economic situation and in fiscal policy in British Columbia. As a result, the Ministry of Finance surveyed the Council members to obtain a revised forecast.

Revised Forecast Council Survey Results for 2001

The Council, on average, expected British Columbia's economy to grow 2.1 per cent in 2001 (see chart below). This was down from the Council's average forecast of 2.4 per cent in January, consistent with a lower outlook for Canadian economic growth (from 2.9 per cent in January to 2.5 per cent in June).

The distribution of the forecasts also changed. In June, the frequency was equally distributed in the range of 1.75 to 2.75 per cent, whereas in January the forecasts were concentrated mainly in the 2.25 to 3.25 per cent range.

ECONOMIC GROWTH FORECASTS, 2001



Source: Economic Forecast Council, June 2001

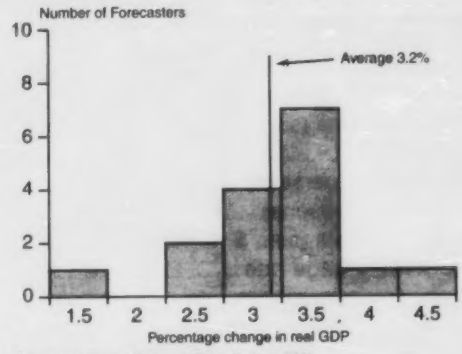
Revised Forecast Council Survey Results for 2002

The average forecast of the Council for British Columbia's economic growth in 2002 was 3.2 per cent (see second chart), up from 2.9 per cent forecast in January.

The distribution of the forecasts was concentrated in the range of 2.75 to 3.75 per cent, while in January they were more evenly distributed between the range of 2.25 to 3.75 per cent.

The Council's forecast for Canadian economic growth in 2002 was upgraded from 2.9 per cent in January to 3.4 per cent.

ECONOMIC GROWTH FORECASTS, 2002



Source: Economic Forecast Council, June 2001

Where are the Main Changes?

Some of the factors that contributed to the lower estimates of provincial economic growth for 2001 included:

- Slower employment growth; employment growth was revised down from 1.6 per cent in January to 1.2 per cent in June. In addition, the Council provided a lower forecast of wages and salaries, down from 4.7 per cent to 4.3 per cent growth.
- A lower business investment profile — from 3.0 per cent growth to 0.1 per cent growth.
- The forecast for housing starts in 2001 is up from 6.7 per cent growth in January to 10.4 per cent growth in June. Retail sales are down slightly from 4.0 per cent to 3.9 per cent growth.

British Columbia Forecasts

Indicator	2001 Jan.	2001 June	2002 Jan.	2002 June
Real GDP (% chg.)	2.4	2.1	2.9	3.2
Employment (% chg.)	1.6	1.2	2.0	2.1
Unemployment rate (%)	7.2	7.1	7.0	6.9
Wages and Salaries (% chg.)	4.7	4.2	5.7	5.5
Pre-tax profits (% chg.)	0.7	–1.1	7.6	8.7
Non-res inv. (% chg.)	3.0	0.1	6.3	6.5
Export prices (% chg.)	1.3	5.2	3.1	3.4
Housing starts (% chg.)	6.7	10.4	10.1	13.2
Retail sales (% chg.)	4.0	3.9	4.9	5.3

Source: Economic Forecast Council, January and June 2001.

Many Council members expected the 25-per cent provincial personal income tax cut announced by the government in June to have a positive impact on provincial economic growth in 2001 and 2002. After these cuts were announced, nine Council members submitted revised forecasts to reflect the new fiscal policy direction. These revisions provided an increase to real GDP growth of 0.2 per cent in 2001 and

0.5 per cent in 2002 (averaged over the nine revisions). Prior to the tax-cut announcement, the Council's GDP forecast was 2.0 per cent for 2001 and 2.9 per cent for 2002.

Similarly, the general sense of improvement in the overall economy seen by the Council led to the upward revision of economic growth in 2002. This is shown by upgrades in employment growth, corporate profits, business investment and consumer spending.

Risks to the Outlook

Some Council members noted the following factors are among the risks to the provincial outlook:

- A prolonged U.S. economic slowdown and its world-wide impact;
- The possible strengthening of the Canadian dollar against the U.S. dollar;
- Further export price declines;
- The handling of native land claims.

Some of the Key Medium-term Outlook Issues

In addition to issues such as tax competitiveness and rising energy prices that were raised by the Council in their January meeting, there are a number of other issues the Council members believe pose risks to the medium-term B.C. economic outlook. They are:

- The resolution of the softwood lumber dispute with the U.S.;
- Net out-migration to the rest of Canada from B.C.;
- The disparity in urban and rural growth;
- The prospects for economic recovery in Japan.

Survey Respondents:

Paul Bowles	University of Northern British Columbia
John DeWolf	CCG Consulting
Don Drummond	Toronto Dominion Bank
Jock Finlayson	Business Council of British Columbia
Michael Goldberg	University of British Columbia
Peter Hall	Conference Board of Canada
Warren Jestin	Bank of Nova Scotia
Dale Orr	WEFA Canada
Tim O'Neill	Bank of Montreal
Helmut Pastrick	Credit Union Central of British Columbia
George Pedersson	G.A. Pedersson & Associates
Alister Smith	Canadian Imperial Bank of Commerce
Carl Sonnen	Informetrica Ltd.
Ernie Stokes	Stokes Economic Consulting
William Tharp	M. Murenbeeld & Associates
Craig Wright	Royal Bank

Council members absent from the survey:

John Helliwell	University of British Columbia
David Park	Vancouver Board of Trade

Forecast Survey in June				
All figures are based on annual averages	*2001 Range of Participants' Opinions*	*2001 Average of Participants' Opinion*[1]	*2002 Range of Participants' Opinions*	*2002 Average Participants' Opinion*[1]
Canada				
— Real GDP (% change)	1.0-3.0	2.5 (16)	2.5-4.0	3.4 (16)
— 3-month interest rates (%)	3.8-6.0	4.6 (14)	3.7-6.0	4.7 (14)
— 10-year and over interest rates (%)	5.2-6.5	5.7 (14)	4.9-6.4	5.7 (14)
— Exchange rate (US cent/Cdn. $)	64.6-70.0	66.0 (14)	61.2-72.0	67.7 (14)
British Columbia				
— Real GDP (% change)	−0.5-3.0	2.1 (16)	1.5-4.6	3.2 (16)
— Employment (% change)	−0.5-2.5	1.2 (15)	0.7-3.0	2.1 (15)
— Unemployment rate (%)	6.5-7.5	7.1 (15)	5.7-7.4	6.9 (15)
— Total wage and salary income (% change)	2.3-7.0	4.2 (9)	3.0-7.5	5.5 (9)
— Corporate pre-tax profits (% change)	−15-8.0	−1.1 (10)	−1.1-15.0	8.7 (10)
— Real business non-residential Investment (% change)	−8.0-5.8	0.1 (11)	3.0-15.0	6.5 (11)
— Goods and services export price deflator (% change)	0.0-20.0	5.2 (5)	1.5-5.0	3.4 (5)
— Housing starts (% change)	0.0-30.0	10.4 (15)	3.6-39.0	13.2 (15)
— Retail sales (% change)	1.6-7.0	3.9 (14)	0.0-8.0	5.3 (14)

[1] Based on responses from participants providing forecasts. Number of respondents is shown in parentheses.

Overview

Consistent with the government's commitment to an accountable and open fiscal management environment, this fiscal update provides British Columbians with a current picture of provincial finances for the 2001/02 fiscal year. It is based on the budget presented to the Legislature on March 15, 2001, updated to reflect:

- economic and fiscal developments that have occurred since March; and
- new measures introduced by the government to stimulate the economy.

A full three-year plan for the period 2002/03 to 2004/05 will be presented to the Legislature on Tuesday, February 19, 2002.

The summary accounts are now projected to show a $1.5-billion deficit in 2001/02. This compares to a $1.1-billion surplus that was forecast in the budget on March 15, 2001.

Table 2.1 provides an overview of changes to the forecast since March. The updated forecast is presented in Table 2.2, and further details of changes are provided in Table 2.3.

The summary accounts deficit is projected at $1.5 billion in 2001/02 compared to the $1.1 billion surplus in the March 15 Budget

Chart 2.1
Summary Accounts — 2001/02

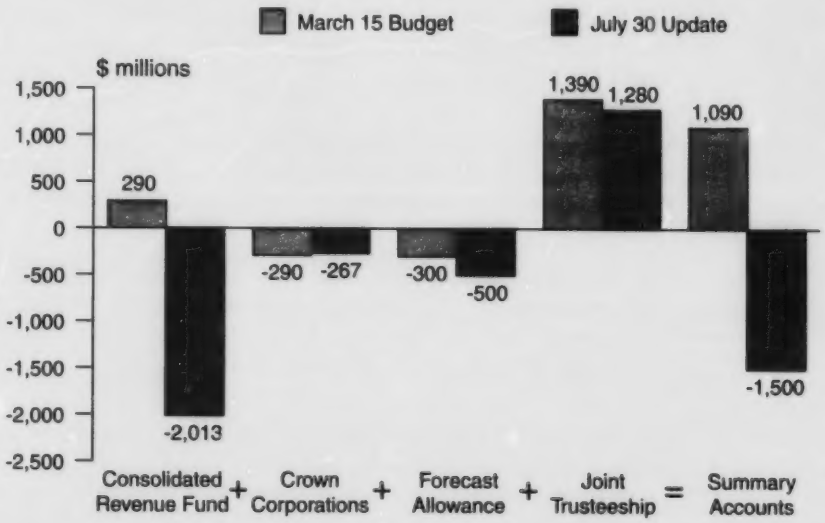


TABLE 2.1
DEVELOPMENTS SINCE THE MARCH 15 BUDGET — SUMMARY ACCOUNTS

	($ millions)	
Summary accounts surplus (deficit) — March 15 Budget		**1,090**
Revenue changes:		
Lower energy prices, updated economic forecast and other changes	(470)	
Tax reduction measures	(1,378)	(1,848)
Spending changes — additional program and accounting adjustments		(455)
Crown corporations — updated for recent developments		23
Forecast allowance — increased allowance for forecast uncertainties		(200)
Joint trusteeship — revised estimate based on finalized *Public Accounts*		(110)
Summary accounts surplus (deficit) — July 30 Update		**(1,500)**

$1.4 billion of tax cuts, lower electricity prices and weaker economic growth reduce revenues by $1.8 billion

Since March, the revenue forecast has been lowered $470 million to reflect an outlook for weaker electricity prices and the effect of slower economic growth in 2001, partially offset by the positive effect of tax cuts. The forecast incorporates the previously announced personal income tax rate reduction which provides taxpayers with benefits estimated at $1.15 billion in 2001/02, and further net tax reduction measures in the July 30 Update totalling $228 million. These measures are expected to have a positive stimulative effect on a number of revenue sources through increased economic activity.

Spending up $455 million from March 15 to recognize identified pressures

The spending forecast has increased $455 million since March to reflect a number of previously unfunded pressures and accounting changes. In addition, a number of other risks will need to be managed closely over the rest of the year to ensure that budget targets are achieved.

The forecast for Crown corporations shows a $23-million improvement from the March forecast, primarily due to improvements in the finances of British Columbia Hydro and Power Authority (BC Hydro) and Forest Renewal BC.

The one-time benefit of joint trusteeship was reduced $110 million, based on a revised estimate of pension plan liabilities prepared during the finalization of the 2000/01 *Public Accounts*. Joint trusteeship for the Teachers' Pension and Municipal Superannuation plans was concluded on April 5, 2001.

Forecast allowance for unforeseen changes increased to $500 million

The summary accounts forecast allowance has been increased $200 million from the March 15 Budget to recognize more of the risks to the financial forecast over the rest of the year. The expenditure budget increase of $455 million also includes a $140-million increase in the Contingencies vote to help manage further spending risks.

TABLE 2.2
SUMMARY ACCOUNTS OPERATING RESULTS

	2000/01 Actual	2001/02 March 15 Budget	2001/02
	($ millions)		
Consolidated revenue fund (CRF):			
Revenue	24,066	24,585	
Expenditure	(22,463)	(24,295)	
CRF balance	1,603	290	
Crown corporations and agencies:			
Taxpayer-supported:			
British Columbia Buildings Corporation	51	39	
British Columbia Ferry Corporation	11	3	
BC Transportation Financing Authority	1	—	
Forest Renewal BC	(64)	(139)	
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[1]	—	—	
Other[2]	49	(7)	
	48	(104)	
Less: Contributions paid to CRF[3]	(69)	(18)	
Other accounting adjustments[4]	(189)	(191)	
Total taxpayer-supported	(210)	(313)	
Self-supported commercial:			
British Columbia Hydro and Power Authority (BC Hydro)	446	459	
Liquor Distribution Branch	642	616	
British Columbia Lottery Corporation	562	585	
British Columbia Railway Company	(7)	18	
Insurance Corporation of British Columbia	139	75	
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[1]	—	6	
Other[5]	4	1	
	1,786	1,760	
Less: Contributions paid to CRF[6]	(1,431)	(1,422)	
Less: Accounting adjustments:			
— Transfer of BC Hydro earnings to (from) rate stabilization account	103	(159)	
— Other accounting adjustments[7]	(301)	(156)	
Total self-supported commercial	157	23	
Total net contribution (loss) of Crown corporations and agencies	(53)	(290)	
Summary accounts balance before forecast allowance and joint trusteeship	1,550	0	
Forecast allowance	—	(300)	
Joint trusteeship	(52)	1,390	
Summary accounts surplus (deficit)	1,498	1,090	

[1] Due to an outlook for weak world pulp prices and its expected effect on the finances of the company, 552513 British Columbia Ltd. (Skeena Cellulose Inc.) has been reclassified from a self-supported to a taxpayer-supported Crown corporation.
[2] B.C. Pavilion Corporation, British Columbia Securities Commission, Okanagan Valley Tree Fruit Authority, Tourism British Columbia, British Columbia Housing Management Commission, British Columbia Transit and other taxpayer-supported Crown corporations and agencies.
[3] Includes dividends paid by British Columbia Buildings Corporation and proceeds received from 580440 British Columbia Ltd. (Vancouver Trade and Convention Centre), and in 2000/01, 577315 British Columbia Ltd. (Western Star Trucks Holdings Ltd.).
[4] Primarily includes adjustments to record the amortization of the cost of highways transferred to the BC Transportation Financing Authority in 1998/99.
[5] Includes the Columbia Power Corporation, the Provincial Capital Commission and other commercial Crown corporations. To conform to the actual results for 2000/01, 552513 British Columbia Ltd. (Skeena Cellulose Inc.) has been reclassified as taxpayer-supported in the July 30 Update.
[6] Includes contributions from the British Columbia Hydro and Power Authority, Liquor Distribution Branch and other commercial Crown corporations.
[7] Includes transfers of British Columbia Lottery Corporation revenue to charities and local governments, and adjustments to the Insurance Corporation of British Columbia and the British Columbia Railway Company to adjust their reporting results from a calendar year basis to government's fiscal reporting period ending March 31.

TABLE 2.2
SUMMARY ACCOUNTS OPERATING RESULTS

	2000/01 Actual	2001/02 March 15 Budget	2001/02 July 30 Update
		($ millions)	
Consolidated revenue fund (CRF):			
Revenue	24,066	24,585	**22,737**
Expenditure	(22,463)	(24,295)	**(24,750)**
CRF balance	1,603	290	**(2,013)**
Crown corporations and agencies:			
Taxpayer-supported:			
British Columbia Buildings Corporation	51	39	**40**
British Columbia Ferry Corporation	11	3	**3**
BC Transportation Financing Authority	1	—	**—**
Forest Renewal BC	(64)	(139)	**(107)**
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[1]	—	—	**(53)**
Other[2]	49	(7)	**(7)**
	48	(104)	**(124)**
Less: Contributions paid to CRF[3]	(69)	(18)	**(18)**
Other accounting adjustments[4]	(189)	(191)	**(191)**
Total taxpayer-supported	(210)	(313)	**(333)**
Self-supported commercial:			
British Columbia Hydro and Power Authority (BC Hydro)	446	459	**420**
Liquor Distribution Branch	642	616	**616**
British Columbia Lottery Corporation	562	585	**585**
British Columbia Railway Company	(7)	18	**1**
Insurance Corporation of British Columbia	139	75	**35**
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[1]	—	6	**—**
Other[5]	4	1	**3**
	1,786	1,760	**1,660**
Less: Contributions paid to CRF[6]	(1,431)	(1,422)	**(1,393)**
Less: Accounting adjustments:			
— Transfer of BC Hydro earnings to (from) rate stabilization account	103	(159)	**(45)**
— Other accounting adjustments[7]	(301)	(156)	**(156)**
Total self-supported commercial	157	23	**66**
Total net contribution (loss) of Crown corporations and agencies	(53)	(290)	**(267)**
Summary accounts balance before forecast allowance and joint trusteeship	1,550	0	**(2,280)**
Forecast allowance	—	(300)	**(500)**
Joint trusteeship	(52)	1,390	**1,280**
Summary accounts surplus (deficit)	1,498	1,090	**(1,500)**

[1] Due to an outlook for weak world pulp prices and its expected effect on the finances of the company, 552513 British Columbia Ltd. (Skeena Cellulose Inc.) has been reclassified from a self-supported to a taxpayer-supported Crown corporation.
[2] B.C. Pavilion Corporation, British Columbia Securities Commission, Okanagan Valley Tree Fruit Authority, Tourism British Columbia, British Columbia Housing Management Commission, British Columbia Transit and other taxpayer-supported Crown corporations and agencies.
[3] Includes dividends paid by British Columbia Buildings Corporation and proceeds received from 580440 British Columbia Ltd. (Vancouver Trade and Convention Centre), and in 2000/01, 577315 British Columbia Ltd. (Western Star Trucks Holdings Ltd.).
[4] Primarily includes adjustments to record the amortization of the cost of highways transferred to the BC Transportation Financing Authority in 1998/99.
[5] Includes the Columbia Power Corporation, the Provincial Capital Commission and other commercial Crown corporations. To conform to the actual results for 2000/01, 552513 British Columbia Ltd. (Skeena Cellulose Inc.) has been reclassified as taxpayer-supported in the July 30 Update.
[6] Includes contributions from the British Columbia Hydro and Power Authority, Liquor Distribution Branch and other commercial Crown corporations.
[7] Includes transfers of British Columbia Lottery Corporation revenue to charities and local governments, and adjustments to the Insurance Corporation of British Columbia and the British Columbia Railway Company to adjust their reporting results from a calendar year basis to government's fiscal reporting period ending March 31.

TABLE 2.3
SUMMARY OF CHANGES FROM THE MARCH 15 BUDGET

	Changes		Projected Final Results
	($ millions)		
Summary accounts surplus (deficit) — March 15 Budget			**1,090**
Consolidated revenue fund (CRF) changes:			
Revenue changes by source (see Part 3 and Table 2.4 for details on tax measures and revenue effects):			
— Personal income tax — lower due to effect of tax rate cut and updated economic forecast	(1,135)		
— Corporation income tax — lower forecast of national tax base incorporates provincial tax cuts and tax credit changes	(91)		
— Social service tax — lower to reflect tax rate cuts partly offset by effect of higher retail sales growth	(79)		
— Corporation capital tax — lower to incorporate tax rate reductions and higher 2000/01 year-end base	(83)		
— Other taxes — lower to incorporate fuel tax rate reductions and lower 2000/01 year-end tax bases	(27)		
— Columbia River Treaty and Crown corporation contributions — lower due to weaker electricity prices and adjustments to Crown corporation dividends	(385)		
— Forests — higher due to increased spruce-pine-fir (SPF) lumber prices	40		
— Other revenue — lower due to reduced asset dispositions, updated economic forecast and other changes	(88)	(1,848)	
Spending changes:			
— Reclassification of capital maintenance spending to ministry operating expenses:			
Health Services (77)			
Education (64)			
Advanced Education (13)	(154)		
— Ministry of Health Services — Pharmacare and other spending increases	(66)		
— Ministry of Forests — increased forest fire suppression costs	(55)		
— Ministry of Water, Land and Air Protection — environmental cleanup	(45)		
— Other program increases (net of reductions and savings)	(12)		
— Debt interest savings	17		
— Contingencies Vote — increase to address other spending risks	(140)	(455)	**(2,303)**
Crown corporation changes:			
Taxpayer-supported:			
— Forest Renewal BC — lower loss due to higher stumpage revenue	32		
— 552513 British Columbia Ltd. (Skeena Cellulose Inc.) — higher loss and reclassification from commercial self-supported corporation	(53)		
— British Columbia Buildings Corporation — higher net income	1	(20)	
Self-supported commercial:			
— British Columbia Hydro and Power Authority — higher net income including transfer to rate stabilization account	75		
— Insurance Corporation of British Columbia — lower net income forecast	(40)		
— British Columbia Railway Company — lower net income forecast	(17)		
— 552513 British Columbia Ltd. (Skeena Cellulose Inc.) — reclassification as taxpayer-supported corporation	(6)		
— Other Crown corporation changes and adjustments (primarily a reduction in dividends)	31	43	**23**
Forecast allowance — increased allowance to address forecast uncertainties			**(200)**
Joint trusteeship — revised estimate based on finalized 2000/01 *Public Accounts*			**(110)**
Summary accounts surplus (deficit) — July 30 Update			**(1,500)**

TABLE 2.3 — *Continued*
SUMMARY OF CHANGES FROM THE MARCH 15 BUDGET

	Changes	Final Results
	($ millions)	
Provincial debt at March 31, 2002 — March 15 Budget		**34,666**
Taxpayer-supported debt changes:		
— Provincial government direct operating	2,406	
— Education facilities[1]	(77)	
— Health facilities[1]	(53)	
— Highways, ferries and public transit	(79)	
— Reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) and other changes	353	**2,550**
Self-supported debt changes:		
— Commercial Crown corporations and agencies	(306)	
— Reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) and other changes	(332)	**(638)**
Forecast debt allowance — mirrors increase in summary accounts forecast allowance		**200**
Provincial debt at March 31, 2002 — July 30 Update		**36,778**

[1] Includes effect of reclassifying $154 million of capital maintenance spending to ministry operating expenses (education facilities: $77 million; health facilities: $77 million) and other capital spending changes.

Consolidated Revenue Fund

2001/02 Consolidated Revenue Fund Revenue

At $22.7 billion, CRF revenue is projected to decline $1.3 billion or 5.5 per cent from the final result for 2000/01. The forecast is $1.8 billion or 7.5 per cent lower than the March 15 Budget in part due to a series of announced tax cuts intended to stimulate the economy as well as lower expected growth in the U.S. and lower energy prices (see Table 2.1).

Details on main revenue sources are shown in Table 2.5 and in Supplementary Table 5. Key economic and other assumptions underlying the main sources in the 2001/02 revenue forecast are shown in Table 2.6.

Includes personal income tax cuts announced on June 6

Personal income tax — down $1,135 million from the March forecast and 18 per cent lower than 2000/01 mainly due to the effect of announced tax rate reductions. The forecast incorporates the announced rate reductions on June 6, with an estimated value of $1,150 million. Although the reductions for the 2001 tax year were announced retroactive to January 1, 2001, the revenue forecast reflects a fifteen-month effect in the 2001/02 fiscal year as recommended by the Auditor General. The effect of the tax reduction is partially offset by a $20-million increase due to a reduction to the dividend tax credit rate, and by the recovery in forecast economic growth as a result of tax cuts (see Table 2.1).

Competitive tax cuts for business included in forecast

Corporation income tax — down $91 million from the March forecast but 9.5 per cent higher than 2000/01. The decline from March resulted from a lower federal government forecast of national corporate profits that will reduce instalments to the province over the rest of the year. The forecast incorporates the effect of a reduction to the general tax rate (13.5 per cent from 16.5 per cent effective January 1, 2002) which has an estimated value of $16 million in 2001/02. This is offset by a $20-million increase resulting from the elimination of the three-per-cent investment tax credit effective July 31, 2001. Lags in the tax collection system administered by the federal government mean that the provincial government will not reap the positive effects of these measures until future years. However, the benefits to British Columbians are expected to begin this year as new investment and job creation takes hold.

TABLE 2.3
SUMMARY OF CHANGES FROM THE MARCH 15 BUDGET

	Changes		Proposed Final Results
	($ millions)		
Summary accounts surplus (deficit) — March 15 Budget			1,000
Consolidated revenue fund (CRF) changes:			
Revenue changes by source (see Part 3 and Table 2.4 for details on tax measures and revenue effects):			
— Personal income tax — lower due to effect of tax rate cut and updated economic forecast	(1,135)		
— Corporation income tax — lower forecast of national tax base incorporates provincial tax cuts and tax credit changes	(91)		
— Social service tax — lower to reflect tax rate cuts partly offset by effect of higher retail sales growth	(79)		
— Corporation capital tax — lower to incorporate tax rate reductions and higher 2000/01 year-end base	(83)		
— Other taxes — lower to incorporate fuel tax rate reductions and lower 2000/01 year-end tax bases	(27)		
— Columbia River Treaty and Crown corporation contributions — lower due to weaker electricity prices and adjustments to Crown corporation dividends	(385)		
— Forests — higher due to increased spruce-pine-fir (SPF) lumber prices	40		
— Other revenue — lower due to reduced asset dispositions, updated economic forecast and other changes	(88)	(1,848)	
Spending changes:			
— Reclassification of capital maintenance spending to ministry operating expenses:			
Health Services	(77)		
Education	(64)		
Advanced Education	(13)	(154)	
— Ministry of Health Services — Pharmacare and other spending increases		(66)	
— Ministry of Forests — increased forest fire suppression costs		(55)	
— Ministry of Water, Land and Air Protection — environmental cleanup		(45)	
— Other program increases (net of reductions and savings)		(12)	
— Debt interest savings		17	
— Contingencies Vote — increase to address other spending risks		(140)	(455)	(2,300)
Crown corporation changes:			
Taxpayer-supported:			
— Forest Renewal BC — lower loss due to higher stumpage revenue	32		
— 552513 British Columbia Ltd. (Skeena Cellulose Inc.) — higher loss and reclassification from commercial self-supported corporation	(53)		
— British Columbia Buildings Corporation — higher net income	1	(20)	
Self-supported commercial:			
— British Columbia Hydro and Power Authority — higher net income including transfer to rate stabilization account	75		
— Insurance Corporation of British Columbia — lower net income forecast	(40)		
— British Columbia Railway Company — lower net income forecast	(17)		
— 552513 British Columbia Ltd. (Skeena Cellulose Inc.) — reclassification as taxpayer-supported corporation	(6)		
— Other Crown corporation changes and adjustments (primarily a reduction in dividends)	31	43	80
Forecast allowance — increased allowance to address forecast uncertainties			(500)
Joint trusteeship — revised estimate based on finalized 2000/01 *Public Accounts*			810
Summary accounts surplus (deficit) — July 30 Update			(1,600)

TABLE 2.3 — *Continued*
SUMMARY OF CHANGES FROM THE MARCH 15 BUDGET

	Changes ($ millions)
Provincial debt at March 31, 2002 — March 15 Budget	
Taxpayer-supported debt changes:	
— Provincial government direct operating	2,406
— Education facilities[1]	(77)
— Health facilities[1]	(53)
— Highways, ferries and public transit	(79)
— Reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) and other changes	353
Self-supported debt changes:	
— Commercial Crown corporations and agencies	(306)
— Reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) and other changes	(332)
Forecast debt allowance — mirrors increase in summary accounts forecast allowance	
Provincial debt at March 31, 2002 — July 30 Update	

[1] Includes effect of reclassifying $154 million of capital maintenance spending to ministry operating expenses (education facilities: $77 million; health facilities: $77 million) and other capital spending changes.

Consolidated Revenue Fund

2001/02 Consolidated Revenue Fund Revenue

At $22.7 billion, CRF revenue is projected to decline $1.3 billion or 5.5 per cent from the final result for 2000/01. The forecast is $1.8 billion or 7.5 per cent lower than the March 15 Budget in part due to a series of announced tax cuts intended to stimulate the economy as well as lower expected growth in the U.S. and lower energy prices (see Table 2.4).

Details on main revenue sources are shown in Table 2.5 and in Supplementary Table 5. Key economic and other assumptions underlying the main sources in the 2001/02 revenue forecast are shown in Table 2.6.

Includes personal income tax cuts announced on June 6

Personal income tax — down $1,135 million from the March forecast and 18 per cent lower than 2000/01 mainly due to the effect of announced tax rate reductions. The forecast incorporates the announced rate reductions on June 6, with an estimated value of $1,150 million. Although the reductions for the 2001 tax year were announced retroactive to January 1, 2001, the revenue forecast reflects a fifteen-month effect in the 2001/02 fiscal year as recommended by the Auditor General. The effect of the tax reduction is partially offset by a $20-million increase due to a reduction to the dividend tax credit rate, and by the recovery in forecast economic growth as a result of tax cuts (see Table 2.4).

Competitive tax cuts for business included in forecast

Corporation income tax — down $91 million from the March forecast but 9.5 per cent higher than 2000/01. The decline from March resulted from a lower federal government forecast of national corporate profits that will reduce instalments to the province over the rest of the year. The forecast incorporates the effect of a reduction to the general tax rate (13.5 per cent from 16.5 per cent effective January 1, 2002) which has an estimated value of $16 million in 2001/02. This is offset by a $20-million increase resulting from the elimination of the three-per-cent investment tax credit effective July 31, 2001. Lags in the tax collection system administered by the federal government mean that the provincial government will not reap the positive effects of these measures until future years. However, the benefits to British Columbians are expected to begin this year as new investment and job creation takes hold.

FORECAST ALLOWANCE UPDATE

Introduction

Beginning with the 1997 budget, government has used prudent forecasting practices to recognize the uncertainties in predicting future economic developments. By explicitly lowering revenues or increasing the forecast deficit, government increased the probability of meeting its budget target.

In 1997/98 and 1998/99, government used prudent revenue forecasts. For 1997/98, the revenue forecast was reduced by approximately $130 million. Without this reduction, final revenues which were only $1 million under budget, would have been $131 million below budget. In 1998/99, a revenue forecast allowance of $130 million was subtracted from the revenue forecast. Final revenues, which were under budget by $135 million, would have been $265 million below target without the allowance.

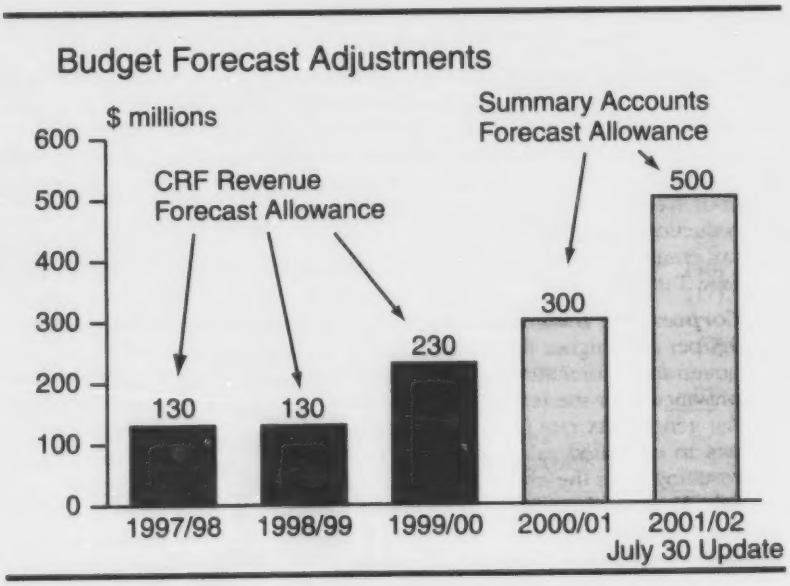
In the last two years, accelerating economic performance produced fiscal results well ahead of forecast. For 1999/2000, a revenue forecast allowance of $230 million was applied. Revenues were $1.69 billion over budget, $1.46 billion over the unadjusted forecast. In 2000/01, with the formal inclusion of Crown corporations into government's bottom-line, government expanded the scope of the forecast allowance to the aggregate surplus/deficit forecast, to cover the combined variances of government revenues, expenditures, and Crown corporation net income forecasts. Last year, government forecast a deficit of $1.3 billion after adding a $300 million forecast allowance. However, the results for the 2000/01 fiscal year now show a $1.5-billion surplus, largely due to significant increases in energy commodity prices and stronger-than-expected economic performance.

Economic and Fiscal Update Forecast Allowance

In this *Economic and Fiscal Update*, government will continue to apply a forecast allowance to the summary accounts bottom-line, to account for risks to revenue, expenditure and Crown corporation forecasts and to increase the likelihood of meeting the forecast target. The Fiscal Review Panel recommended a $730-million forecast allowance, primarily to cover certain spending pressures. In this *Update*, government has provided additional spending of $455 million, including a further $140 million in the Contingencies vote, to cover the additional forecast risk. As well, the forecast allowance has been increased by $200 million to a total of $500 million, 1.3 per cent of total government and Crown coporation revenues, or 2.2 per cent of CRF revenue.

This allowance covers a wide range of possible circumstances, some of which may be offsetting, such as:

- — below (or above) forecast economic growth;
- — weaker (or higher) than-expected energy prices, due to changes in the regulatory environments, markets and weather conditions;



— lower (or higher) forest revenues, recognizing the uncertainty associated with the outcome of the softwood lumber countervail duty investigation;

— total CRF expenditures exceeding (or falling short of) budget, for example due to higher-than-expected costs of legal settlements;

— lower (or higher) profits/losses in Crown corporations, for example due to the effect of a dryer-than-normal winter on BC Hydro's net income forecast;

— other difficult-to-predict changes such as year-end accounting adjustments; and,

— changes in government policy.

Adjustment to *Economic and Fiscal Update* Deficit Forecast

The 2001/02 fiscal forecasts in the *Economic and Fiscal Update* are based on government policies as at July 23, 2001. The forecasts also incorporate the following:

— the economic forecast documented in Part 1, the *British Columbia Economic Review and Outlook*;

— specific determinants of CRF revenue such as sales of Crown land drilling rights, timber harvest levels, and asset sales, that are not directly specified in the economic forecast. These assumptions are detailed in Table 2.6;

— cost drivers affecting CRF expenditures, such as income assistance caseloads, forest fires, legal claims, health care demands and interest rates, that are detailed in Table 2.9. As well, the Contingencies (All Ministries) and New Programs Vote is included as part of the *Estimates* approved by the Legislature to help manage spending changes through the year; and

— factors affecting the financial results of Crown corporations, such as accident rates (ICBC) and electricity prices and water levels (BC Hydro), that are listed in Table 2.11.

Overall, the government considers the assumptions presented in the *Economic and Fiscal Update* to be within the range of reasonable expectations, and that in aggregate they result in the most likely forecast of the summary accounts deficit. As a result, the effect of the $500-million forecast allowance is to increase the deficit from the most likely forecast of $1.0 billion to $1.5 billion.

TABLE 2.4
DEVELOPMENTS SINCE THE MARCH 15 BUDGET — CRF REVENUE

	Real GDP		2001/02 Revenue
	2001	2002	— ($ millions) —
CRF revenue — March 15 Budget	**2.4%**	**2.9%**	[illegible]
June Forecast:			
Effects of lower federal government forecast of national tax base			(95)
Effects of lower provincial economic growth (before tax cuts) due to weaker North American economic activity	**1.8%**	**2.7%**	(133)
Effects of lower electricity prices (Columbia River Treaty) and lower BC Hydro dividends			(385)
Higher spruce-pine-fir (SPF) lumber prices and other forests changes			40
Revised Forecast — June 2001			[illegible]
Revenue Measures (see Part 3 for details):			
Personal income tax rate reductions (June 6 announcement)			[illegible]
Further measures (July 30 announcement):			
— corporation income tax rate reduction			(16)
— social service tax rate reductions			(134)
— corporation capital tax rate reductions			(101)
— motor fuel tax rate reductions			(17)
— dividend and manufacturing and processing tax credit reductions			40
Effects of higher economic growth in response to tax cuts	**2.2%**	**3.8%**	130
Other forecast changes			(27)
CRF revenue — July 30 Update			[illegible]

Social service tax — down $79 million from the March forecast, but up 1.3 per cent from last year. Elimination of the sales tax on production machinery and equipment and an increase to the threshold at which vehicles are subject to a higher tax rate (effective July 31, 2001) will reduce revenue by $134 million this year. This is partly offset by the expected positive effect of higher retail sales growth in response to the tax cuts.

Corporation capital tax — $83 million below the March forecast and 24 per cent lower than 2000/01. The effect of phasing out the tax applied to non-financial corporations (starting September 1, 2001) will reduce revenue by $101 million in 2001/02. However, this is partly offset by the effect of larger-than-expected final assessments at the end of 2000/01 which increased the tax base.

Fuel, property and other taxes — down $33 million from the March forecast but slightly higher than last year. Fuel tax revenue is $29 million lower than the March forecast due to the effect of tax reductions for jet, aviation and bunker fuels, which reduce revenue by $17 million this year, and a lower-than-assumed tax base at the end of 2000/01. The 6.1-per-cent decline in fuel tax revenue from 2000/01 also reflects a 1-cent-per-litre increase in revenue transferred to the Greater Vancouver Transportation Authority (*TransLink*).

TABLE 2.5
REVENUE BY SOURCE[1] — CONSOLIDATED REVENUE FUND

	Actual 2000/01	2001/02 March 15 Budget	2001/02	Increase (Decrease)[2]
	($ millions)			(per cent)
Taxation Revenue:				
Personal income	6,015	6,070	[illegible]	(18.0)
Corporation income	1,054	1,245	[illegible]	9.5
Social service	3,617	3,743	[illegible]	1.3
Property	1,371	1,400	[illegible]	2.6
Fuel	443	445	[illegible]	(6.1)
Corporation capital	459	430	[illegible]	(24.4)
Other[3]	1,011	1,039	[illegible]	2.4
Less: commissions on collections of public funds	(23)	(24)	[illegible]	4.4
Less: allowances for doubtful accounts	(14)	(25)	[illegible]	78.6
	13,933	14,323	[illegible]	(7.4)
Natural Resource Revenue:				
Natural gas royalties	1,249	1,323	[illegible]	5.9
Petroleum royalties, permits, fees and minerals	651	543	[illegible]	(16.6)
Forests	1,153	1,110	[illegible]	(0.3)
Water and other resources	309	315	[illegible]	1.9
Columbia River Treaty	632	831	[illegible]	(24.8)
Less: commissions on collections of public funds	(1)	(2)	[illegible]	100.0
Less: allowances for doubtful accounts	(18)	(10)	[illegible]	(44.4)
	3,975	4,110	[illegible]	(4.6)
Other Revenue[4]	1,861	1,903	[illegible]	(1.9)
Contributions from Government Enterprises	1,500	1,440	[illegible]	(5.9)
Contributions from the Federal Government:				
Canada health and social transfer	2,619	2,631	[illegible]	0.0
Other	178	178	[illegible]	0.0
	2,797	2,809	[illegible]	0.0
TOTAL REVENUE	**24,066**	**24,585**	[illegible]	(5.5)

[1] Revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations, agencies and other public bodies (2000/01 actual: $842 million; 2001/02 March 15 Budget: $836 million; 2001/02 July 30 Update: $873 million). For details, see Supplementary Table 5.
[2] Percentage change between the 2001/02 July 30 Update and 2000/01 Actual.
[3] Includes revenue from tobacco tax, property transfer tax, insurance premium tax, and hotel room tax. For details, see Supplementary Table 5.
[4] Includes revenue from fees and licences, asset dispositions, investment earnings, and other miscellaneous sources.

Natural gas and petroleum royalties, permits, fees and minerals — unchanged from the March forecast and $34 million lower than last year as the high levels of Crown land drilling rights sales in 2000/01 are not expected to continue at the same pace in 2001/02.

Forests — up $40 million from the March forecast and down slightly from 2000/01. Stumpage revenue is expected to be $29 million higher than the March forecast as the effects of an outlook for higher spruce-pine-fir (SPF) 2×4 prices and a lower exchange rate offset lower average hemlock prices and harvest volumes. Lumber export fees collected by the federal government for 2000/01 will be $28 million higher than the March forecast. This is partly offset by a lower forecast of logging tax revenue in 2001/02.

TABLE 2.4
DEVELOPMENTS SINCE THE MARCH 15 BUDGET — CRF REVENUE

	Real GDP		2001 02 Revenue	
	2001	2002		
			— ($ millions) —	
CRF revenue — March 15 Budget	**2.4%**	**2.9%**		**24,585**
June Forecast:				
Effects of lower federal government forecast of national tax base			(95)	
Effects of lower provincial economic growth (before tax cuts) due to weaker North American economic activity	**1.8%**	**2.7%**	(133)	
Effects of lower electricity prices (Columbia River Treaty) and lower BC Hydro dividends			(385)	
Higher spruce-pine-fir (SPF) lumber prices and other forests changes			40	(573)
Revised Forecast — June 2001				**24,012**
Revenue Measures (see Part 3 for details):				
Personal income tax rate reductions (June 6 announcement)				**(1,150)**
Further measures (July 30 announcement):				
— corporation income tax rate reduction			(16)	
— social service tax rate reductions			(134)	
— corporation capital tax rate reductions			(101)	
— motor fuel tax rate reductions			(17)	
— dividend and manufacturing and processing tax credit reductions			40	**(228)**
Effects of higher economic growth in response to tax cuts	**2.2%**	**3.8%**	130	
Other forecast changes			(27)	**103**
CRF revenue — July 30 Update				**22,737**

Social service tax — down $79 million from the March forecast, but up 1.3 per cent from last year. Elimination of the sales tax on production machinery and equipment and an increase to the threshold at which vehicles are subject to a higher tax rate (effective July 31, 2001) will reduce revenue by $134 million this year. This is partly offset by the expected positive effect of higher retail sales growth in response to the tax cuts.

Corporation capital tax — $83 million below the March forecast and 24 per cent lower than 2000 01. The effect of phasing out the tax applied to non-financial corporations (starting September 1, 2001) will reduce revenue by $101 million in 2001 02. However, this is partly offset by the effect of larger-than-expected final assessments at the end of 2000 01 which increased the tax base.

Fuel, property and other taxes — down $33 million from the March forecast but slightly higher than last year. Fuel tax revenue is $29 million lower than the March forecast due to the effect of tax reductions for jet, aviation and bunker fuels, which reduce revenue by $17 million this year, and a lower-than-assumed tax base at the end of 2000 01. The 0.1-per-cent decline in fuel tax revenue from 2000 01 also reflects a 1-cent-per-litre increase in revenue transferred to the Greater Vancouver Transportation Authority (*TransLink*).

TABLE 2.5
REVENUE BY SOURCE[1] — CONSOLIDATED REVENUE FUND

	Actual 2000/01	2001/02 March 15 Budget	2001/02 July 30 Update	Increase (Decrease)[2]
		($ millions)		(per cent)
Taxation Revenue:				
Personal income	6,015	6,070	**4,935**	(18.0)
Corporation income	1,054	1,245	**1,154**	9.5
Social service	3,617	3,743	**3,664**	1.3
Property	1,371	1,400	**1,406**	2.6
Fuel	443	445	**416**	(6.1)
Corporation capital	459	430	**347**	(24.4)
Other[3]	1,011	1,039	**1,035**	2.4
Less: commissions on collections of public funds	(23)	(24)	**(24)**	4.4
Less: allowances for doubtful accounts	(14)	(25)	**(25)**	78.6
	13,933	14,323	**12,908**	(7.4)
Natural Resource Revenue:				
Natural gas royalties	1,249	1,323	**1,323**	5.9
Petroleum royalties, permits, fees and minerals	651	543	**543**	(16.6)
Forests	1,153	1,110	**1,150**	(0.3)
Water and other resources	309	315	**315**	1.9
Columbia River Treaty	632	831	**475**	(24.8)
Less: commissions on collections of public funds	(1)	(2)	**(2)**	100.0
Less: allowances for doubtful accounts	(18)	(10)	**(10)**	(44.4)
	3,975	4,110	**3,794**	(4.6)
Other Revenue[4]	1,861	1,903	**1,826**	(1.9)
Contributions from Government Enterprises	1,500	1,440	**1,411**	(5.9)
Contributions from the Federal Government:				
Canada health and social transfer	2,619	2,631	**2,620**	0.0
Other	178	178	**178**	0.0
	2,797	2,809	**2,798**	0.0
TOTAL REVENUE	**24,066**	**24,585**	**22,737**	(5.5)

[1] Revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations, agencies and other public bodies (2000/01 actual: $842 million; 2001/02 March 15 Budget: $836 million; 2001/02 July 30 Update: $873 million). For details, see Supplementary Table 5.
[2] Percentage change between the 2001/02 July 30 Update and 2000/01 Actual.
[3] Includes revenue from tobacco tax, property transfer tax, insurance premium tax, and hotel room tax. For details, see Supplementary Table 5.
[4] Includes revenue from fees and licences, asset dispositions, investment earnings, and other miscellaneous sources.

Natural gas and petroleum royalties, permits, fees and minerals — unchanged from the March forecast and $34 million lower than last year as the high levels of Crown land drilling rights sales in 2000/01 are not expected to continue at the same pace in 2001/02.

Forests — up $40 million from the March forecast and down slightly from 2000/01. Stumpage revenue is expected to be $29 million higher than the March forecast as the effects of an outlook for higher spruce-pine-fir (SPF) 2×4 prices and a lower exchange rate offset lower average hemlock prices and harvest volumes. Lumber export fees collected by the federal government for 2000/01 will be $28 million higher than the March forecast. This is partly offset by a lower forecast of logging tax revenue in 2001/02.

Lower electricity revenue due to weaker price outlook

Columbia River Treaty — $356 million below the March forecast and 25 per cent lower than 2000/01 due to the effect of lower assumed average market prices on sales of electricity received under the treaty. Electricity received under the treaty is sold on behalf of the government through Powerex, a subsidiary of BC Hydro, at market electricity prices. Since March, average monthly market electricity prices in the U.S. have fallen about 75 per cent. By contrast, net income of BC Hydro improved since the March forecast as the corporation was able to take advantage of the unexpectedly high volatility in the market during the first two months to increase its electricity trade margins (i.e. differences between purchase and selling prices).

Other revenue — down $77 million from the March forecast and 1.9 per cent lower than last year. The budget revision reflects lower estimates of revenue from asset dispositions, Medical Services Plan premiums and Crown land sales.

Crown corporation contributions — down $29 million from the March forecast due to a correction of the dividend estimate for BC Hydro used in the March forecast, partially offset by the effect of a higher net income forecast for 2001/02. Contributions from Crown corporations are 5.9 per cent lower than the previous year due to lower net income from BC Hydro and the Liquor Distribution Branch.

Federal government contributions — $11 million lower than the March forecast due to lower Canada health and social transfer (CHST) contributions resulting from weaker national economic growth and a lower national tax base.

Revenue Forecast Assumptions and Risks

Changes to the revenue forecast can result from a combination of factors. These include changes in economic conditions, policy changes implemented mid-year, and other unpredictable events such as changing weather patterns, commodity prices, foreign trade restrictions and labour disruptions. Sometimes unrelated changes offset one another. For example, higher-than-expected energy resource revenue more than offset lower-than-forecast forest revenue in 2000/01.

Table 2.6 compares the Ministry of Finance's key economic and other assumptions for the main revenue sources in the March and July revenue forecasts for 2001/02. The table also provides estimated revenue sensitivities to changes in individual assumptions.

TABLE 2.6

MAIN REVENUE FORECAST ASSUMPTIONS AND RISKS — CONSOLIDATED REVENUE FUND

Revenue Source ($ millions)	2001/02 Forecast Assumptions: March 15 Budget	2001/02 Forecast Assumptions: July 30 Update	Risks and Sensitivities
Personal Income Tax	**$6,070**	**$4,935**	
2001 BC personal income growth	3.4%	3.2%	± 1% change in 2001 personal income growth equals ±$50 to $100 million.
2002 BC personal income growth	3.8%	3.9%	
2001 BC tax base growth (after federal/provincial measures)	3.7%	3.3%	Final 2000 tax assessments (as of December 31, 2001) could affect the tax base forecast.
2002 BC tax base growth	5.6%	5.8%	
BC Family Bonus tax reduction	$80M	$80M	If the distribution of taxable income among various income levels is different than assumed, this could affect 2001 revenue due to the nature of the "tax-on-income" system.
		Assumes 15-month effect of tax reduction measures totaling $1,150 million, partly offset by a $20-million increase due to a decrease in the dividend tax credit rate.	
Corporation Income Tax	**$1,245**	**$1,154**	
2001 national tax base growth	5%	−1%	Changes to the federal government's outlook for national corporate profits in 2001 could affect payments.
2000 BC growth	15%	15%	
2000 BC corporate profits growth	4%	4%	
Instalment share (from 1999 final tax assessments)	8.9%	8.9%	±1% change in 2001 national tax base growth equals ±$10 to $15 million.
2001 general tax rate	16.5%	16.5%	
2002 general tax rate	16.5%	13.5%	
Small business tax rate	4.5%	4.5%	±1% change in 2000 BC tax base growth equals ±$10 to $15 million.
Recorded on a cash basis.		Incorporates the general tax rate reduction effect of $16 million, offset by the elimination of the manufacturing and processing investment tax credit.	Changes in 2001 BC corporate profits affect revenue in 2002/03.
BC's share of the 2000 tax-year assessments (as of December 31, 2001) determines payments in 2002/03.			
Social Services Tax	**$3,743**	**$3,664**	
2001 retail sales growth	3.5%	4.0%	±1% change in retail sales growth affects revenue by ±$20 to $30 million.
2002 retail sales growth	3.8%	4.2%	
2001 machinery and equipment spending growth	3.6%	NA	
2002 machinery and equipment spending growth	5.9%	NA	Revenue growth could be higher or lower depending on the level of consumer confidence and the extent of economic activity in response to tax cuts.
		Incorporates tax reduction measures totaling $134 million. Assumes higher retail sales growth in response to tax cuts.	
Corporation Capital Tax	**$430**	**$347**	
2001 real GDP growth	2.4%	2.2%	±1% change in the tax base equals up to ±$5 million.
2001 corporate profits growth	4.0%	5.0%	
Assumes the overall tax base grows in line with real GDP and corporate profits growth.		Incorporates tax reduction measures of $101 million and a higher 2000/01 final base.	
Property Tax	**$1,400**	**$1,406**	
2001 gross residential property tax revenue growth	1.2%	1.0%	Residential tax assessments for 2001 are complete. Overall forecast risk at ±$10 to $15 million.
2002 housing starts growth	12.4%	6.8%	
2001 non-residential property value growth	3.9%	3.9%	
Excludes Home Owner grants	$505M	$504M	±1% change in non-residential assessed value equals ±$5 to $10 million.
Assumes a continuation of the freeze on average gross residential property taxes. Assumes no change to non-residential property tax rates.			

TABLE 2.6 — *(Continued)*

MAIN REVENUE FORECAST ASSUMPTIONS AND RISKS — CONSOLIDATED REVENUE FUND

	2001/02 Forecast Assumptions		
Revenue Source ($ millions)	**March 15 Budget**	**July 30 Update**	**Risks and Sensitivities**
Fuel, Tobacco and Other Taxes	**$1,484**	**$1,451**	
2001 nominal GDP growth	4.0%	3.6%	±1% change in factors determining growth equals ±$10 to $20 million.
2001 real GDP growth	2.4%	2.2%	
2001 population growth	1.2%	0.9%	
Includes additional transfer to the Greater Vancouver Transportation Authority (*Translink*) of 1 cent per litre of fuel tax, reducing CRF revenue by $21 million. Assumes base grows in line with increases in population and overall economic growth.		Incorporates new fuel tax reduction measures of $17 million and a lower 2000/01 final base.	
Natural Gas, Petroleum and Minerals	**$1,866**	**$1,866**	
2001/02 average natural gas producer price ($Cdn/gigajoule)	$6.00	$6.00	Natural gas prices are volatile. Market demand and price could change significantly due to weather or events affecting the energy situation in California. ±$0.50 change in natural gas price equals ±$75 to $125 million. ±1% change in natural gas volumes equals ±$10 to $15 million. ±5% change in price or volume of land sales equals ±$11 million. ±5% change in oil price equals ±$20 million.
2001/02 natural gas volume growth	7.9%	7.9%	
Average bid price for Crown land drilling rights ($Cdn/hectare)	$305	$305	
Auctioned land base (000 hectares)	1,000	1,000	
2001/02 average petroleum price ($US/barrel)	$27.00	$27.00	
Assumes a number of initiatives which are expected to increase natural gas volumes (e.g. Pine River plant processing changes) and the land base for auction bids.			
Forests	**$1,110**	**$1,150**	
Crown coastal harvest volumes (millions m^3)	17.0	15.0	Effects of the termination of the Canada/US Softwood Lumber Agreement and the countervailing duty investigation are unknown. ±US $50 change in SPF price equals ±$65 to $80 million change in CRF revenue. ±US $100 change in hemlock price equals ±$15 to $20 million. ±10% change in coastal harvest volumes equals ± $20 to $30 million. ±10% change in interior harvest volumes equals ± $65 to $80 million. A 1 cent US increase (decrease) in the exchange rate reduces (increases) revenue by $5 to $10 million.
Crown interior harvest volumes (millions m^3)	46.0	46.5	
2001 average SPF 2x4 price ($US/1,000 board feet)	$225	$259	
2001 average hemlock price ($US/1,000 board feet)	$600	$582	
2001 average pulp price ($US/tonne)	$650	$564	
2001 exchange rate (US cents/Cdn dollar)	66.4	65.5	
Softwood lumber export fees collected by the federal government on behalf of British Columbia	$22M	$50M	
Excludes transfer of revenue collected on behalf of Forest Renewal BC	$140	$167M	
Pulp prices indirectly effect CRF revenue through harvest volumes.			
Columbia River Treaty Electricity Sales	**$831**	**$475**	
Electricity is received at a fixed annual quantity as defined in the treaty. The electricity has been assigned to Powerex (a BC Hydro subsidiary), and Powerex pays the government the market value of this electricity based on an arms length index price. Assumed market prices are based on BC Hydro's outlook for forward market prices.		Assumed price forecast based on BC Hydro's June 20 outlook, and is 44 per cent lower than the March 15 Budget forecast.	Volatile revenue source. While BC Hydro can take advantage of high volatility in the market to increase its trade margins and resultant net income, Columbia River Treaty revenue is directly affected by changes in current and forward market electricity prices. Weather can affect the forecast through price and demand factors, as well as market and regulatory changes in the U.S. ± 10% change in average selling prices equals ± $20 to $25 million.

TABLE 2.6 — *(Continued)*

MAIN REVENUE FORECAST ASSUMPTIONS AND RISKS — CONSOLIDATED REVENUE FUND

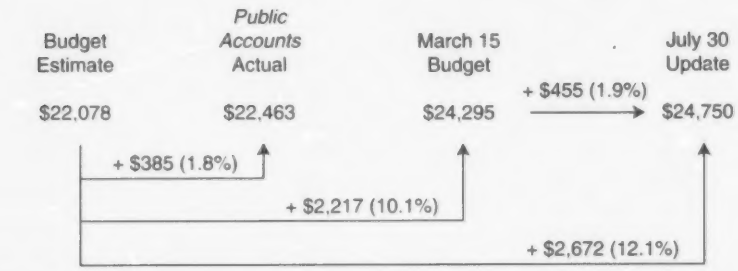
Revenue Source ($ millions)	2001/02 Forecast Assumptions: March 15 Budget	July 30 Update	Risks and Sensitivities
Other Sources: Fees, Licences and Miscellaneous	**$1,903**	**$1,826**	±1% change in usage rate/ population growth equals ±$15 to $20 million.
2001 real GDP growth	2.4%	2.2%	
2001 population growth	1.2%	0.9%	
Asset dispositions	$50M	0	
Revenue includes MSP premiums, motor vehicle licences, other fees, licences and fines, investment earnings, asset dispositions and other miscellaneous items. Usage rate generally varies with population and real economic growth.		Assumes: — lower MSP premium revenue due to lower 2000/01 final base; — lower revenue from Crown land sales due to delayed sales; — termination of the photo radar program; and — asset disposition delays.	
Contributions from Government Enterprises	**$1,440**	**$1,411**	
British Columbia Hydro and Power Authority (BC Hydro)	$375M	$346M	±1% change in population or real GDP growth equals ±$10 million to $20 million. BC Hydro contribution is affected by weather, water reservoir levels, electricity markets, interest rates and foreign exchange rates. BCBC dividend affected by levels of property sales.
Liquor Distribution Branch (LDB)	$616M	$616M	
British Columbia Lottery Corporation (BCLC)	$429M	$429M	
British Columbia Buildings Corporation (BCBC)	$16M	$16M	
Other Crown corporations	$4M	$4M	
2001 real GDP growth	2.4%	2.2%	
2001 population growth	1.2%	0.9%	
LDB and BCLC contributions are generally dependent on growth in real GDP and population. BC Hydro's contribution is set by regulation and is dependent on projected net income. The change in the BC Hydro dividend from the March forecast reflects a correction to the initial March estimate, partially offset by the effect of a higher net income forecast in 2001/02. The BCBC contribution is based on projected net income and capital requirements. Other corporations included in forecast: Columbia Power Corporation: $2 million; and 580440 British Columbia Ltd. (Vancouver Trade and Convention Centre): $2 million. Assumes no dividend from BC Rail. See Table 2.11 for assumptions of major Crown corporations.			
Canada Health and Social Transfer (CHST)	**$2,631**	**$2,620**	
2001/02 national cash and tax point bases	$33,026M	$32,869M	±1% change in British Columbia population with no change in national population is equivalent to ±$40 to $50 million. 1% increase (decrease) in the British Columbia income tax base reduces (increases) revenue by $15 to $20 million. ±1% change in the national base (cash and tax), equals ±$40 to $50 million, assuming no change to the British Columbia income tax base.
BC entitlement share (share of national population)	13.22%	13.22%	
BC tax point offset	−$1,735	−$1,725	
National cash entitlement	$17,300M	$17,300M	
Revenue based on: BC share of national cash and tax points (population share); Less: BC estimated revenue from tax points (a fixed percentage of the provincial personal and corporation income tax bases)			

2001/02 Consolidated Revenue Fund Expenditure

At $24.8 billion, CRF spending is $455 million higher than the March 15 Budget primarily to reflect a number of previously unfunded pressures and accounting changes.

Chart 2.2 shows that total spending in 2001/02 is 12.1 per cent higher than the comparable 2000/01 budget estimate. This is due in part to the effect of $385 million of overspending that occurred in 2000/01 (carried over into 2001/02), based on *Public Accounts* information.

Chart 2.2
Total CRF Spending Increases
($ millions)



New spending budget allows for identified pressures since March plus other developments

Table 2.7 provides an overview of changes to the spending forecast since the March 15 Budget.

In 2000/01, the Auditor General recommended a pension accounting policy change that had the effect of reducing the government's overall expenditure for the year. When this change is excluded from last year's estimates, the underlying increase in budgeted program spending is $2.3 billion or 10.3 per cent in 2001/02 (see Table 2.8). Based on the actual results for 2000/01, comparative program spending shows an 8.4-per-cent increase in 2001/02.

TABLE 2.7
DEVELOPMENTS SINCE THE MARCH 15 BUDGET — CRF EXPENDITURE

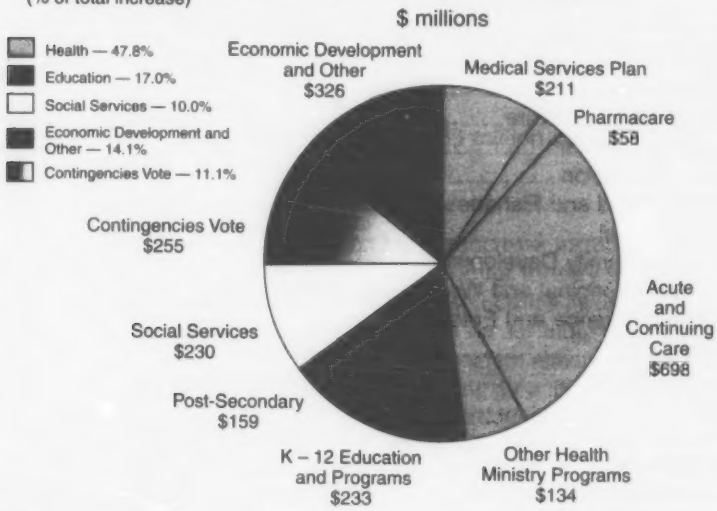
	($ millions)	
CRF expenditure — March 15 Budget		**24,295**
Ministry of Health Services (Pharmacare and other increases)	66	
Ministry of Forests (forest fire suppression)	55	
Ministry of Water, Land and Air Protection (environmental cleanup)	45	
Reclassifying capital spending to operating costs (Ministries of Health Services, Education and Advanced Education)	154	
Other program increases	55	
Identified reductions and other program savings	(43)	
Debt interest savings	(17)	
Contingencies vote — increase to address other spending risks	140	
Total changes (+1.9 per cent from March 15 Budget)		455
CRF expenditure — July 30 Update		**24,750**

Chart 2.3

Program Spending Increases in 2001/02 compared to the 2000/01 Budget Estimates*

Consolidated Revenue Fund (% of total increase)

Total Increase: $2,304 million



* Based on the 2000/01 restated budget estimate, excluding pension accounting policy changes (see Table 2.8).

Chart 2.3 shows the major components of the $2.3-billion increase in budgeted program spending for 2001/02. Of the total increase, health spending alone makes up nearly 50 per cent while education and social services account for 27 per cent.

Changes since the March 15 Budget include . . .

The following provides information on full-year spending budgets in 2001/02 compared to the 2000/01 comparative budget estimates (see Table 2.8). Where applicable, references are included at the end of each section and in the margins to highlight significant changes since the March 15 Budget.

Legislation — up $6 million for increased costs related to an election year.

Officers of the Legislature — up $25 million including $24 million for Elections B.C.

$5 million added for the Crown Agencies Secretariat, technology enhancement and the Core Review

Office of the Premier — up $5 million. The increase reflects a change since March and provides $3.5 million in funding for Crown Agencies Secretariat costs, which are no longer being directly recovered from Crown corporations. The budget also includes an increase of $1 million to support the new Premier's Council on Technology, and to provide for the enhanced responsibilities of the government's Chief Information Officer. The remaining increase is primarily to cover the cost of the Core Review and a number of other initiatives to improve the effectiveness of government.

$13 million for maintenance expenses previously classified as capital

Ministry of Advanced Education — up $159 million. A 10.7-per-cent increase ($142 million) in educational institutions and organizations funding (including enhanced funding for Industry Training and Apprenticeship Commission programs) will provide: $47 million towards enhanced services for post-secondary students, including 5,025 new student spaces (including 400 new spaces for nurses), increased funding for the Technical University of British Columbia, and expanded training of health care workers

TABLE 2.8

EXPENDITURE BY MINISTRY
CONSOLIDATED REVENUE FUND

	2000/01[1]		2001/02		
	Budget Estimate	Actual	March 15 Budget	July 30 Update	Increase (Decrease)[2]
	($ millions)				(per cent)
Legislation	38	36	41	44	14.6
Officers of the Legislature	26	26	51	51	94.6
Office of the Premier	15	15	15	20	35.3
Advanced Education	1,735	1,902	1,881	1,894	9.1
Agriculture, Food and Fisheries	79	82	83	82	3.7
Attorney General	501	603	538	552	10.3
Children and Family Development	1,361	1,352	1,550	1,551	13.9
Community, Aboriginal and Women's Services	471	465	586	562	19.6
Competition, Science and Enterprise	81	84	73	72	(11.1)
Education	4,611	4,612	4,780	4,844	5.1
Energy and Mines	37	57	68	67	82.5
Finance	46	43	47	47	2.7
Forests	486	530	484	539	10.8
Health Planning	5	5	5	5	5.2
Health Services	8,412	8,798	9,370	9,513	13.1
Human Resources	1,866	1,871	1,946	1,939	3.9
Management Services	52	57	50	64	24.3
Provincial Revenue	44	41	50	50	13.0
Public Safety and Solicitor General	451	456	496	499	10.5
Skills Development and Labour	30	35	30	30	0.6
Sustainable Resource Management	114	109	120	134	16.8
Transportation	645	628	673	672	4.3
Water, Land and Air Protection	169	176	178	216	27.8
Other appropriations:					
Management of Public Funds and Debt	1,009	889	840	823	(18.4)
BC Family Bonus	152	145	120	120	(21.1)
Contingencies (All Ministries) and New Programs	105[3]	—	220	360	242.5
Amortization of change in unfunded pension liability	(130)	(266)	(58)	(58)	(55.2)
Other Appropriations[4]	35	80	58	58	67.1
Total Program Expenditure					
Before Pension Accounting Policy Adjustment	22,446	22,831	24,295	24,750	10.3
Pension Accounting Policy Adjustment	(368)	(368)	—	—	100.0
TOTAL EXPENDITURE[1]	22,078	22,463	24,295	24,750	12.1

[1] To be consistent with the presentation used for 2001/02, ministry budgets and actual expenditures have been restated for organizational changes. In addition, the 2000/01 budget has been restated to reflect a change in pension accounting policy and a change in the classification of certain capital expenditures. The pension accounting policy change reduced the spending budget by $368 million, while the capital expenditure adjustment increased the spending budget by $146 million. In total, these adjustments reduced the 2000/01 spending estimate (and estimated summary accounts deficit) by $222 million.

[2] Percentage change between the 2001/02 July 30 Update and the 2000/01 Budget Estimate (figures based on unrounded estimates).

[3] To conform to the presentation used for 2001/02, portions of the original $125-million budget have been allocated to ministries.

[4] Other appropriations include the Commissions on Collection of Public Funds and Allowance for Doubtful Revenue Accounts Vote, the Environmental Assessment and Land Use Coordination Vote, the Environmental Boards and Forest Appeals Commission Vote, the Forest Practices Board Vote, the Public Sector Employers' Council Vote, the Seismic Mitigation Vote, the Insurance and Risk Management Special Account, the Unclaimed Property Special Account, and other appropriations.

under the Health Action Plan; $83 million towards increased funding support for core funding and cost increases of post-secondary institutions, including compensation for the tuition fee reduction, funding for previously contracted salary and benefit increases, and funding for anticipated contract settlements. The student financial assistance program budget will increase by $21 million or 16 per cent to fund anticipated increased demand, and amortization and debt service costs will decrease by $7 million. Since March, $13 million was added to the ministry's budget for operating maintenance expenses that were previously classified as capital expenditures.

Ministry of Agriculture, Food and Fisheries — up $3 million mainly due to increased funding for Fisheries Renewal BC.

$14 million added for Air India proceedings, litigation settlements and justices of the peace

Ministry of Attorney General — a $51-million budget increase includes an additional $18 million for payments to the McLeod Lake Indian Band for forestry stumpage revenue collected on their behalf, $19 million for increased claims against the government under the *Crown Proceeding Act*, $4 million for Air India proceedings, and additional funding for labour cost increases and other program enhancements. Since March, $14 million has been added to the budget including $9 million under the *Crown Proceeding Act*, $4 million for Air India proceedings and additional funding for justices of the peace and treaty settlements.

Budget essentially unchanged from March

Ministry of Children and Family Development — up $190 million. Services for children and families will increase $90 million and community living services for adults and special needs children will increase $60 million. The increases primarily reflect the costs of contract changes for community social service workers. Additional funding of $27 million is provided for early childhood development, approximately half of which is focused on the needs of aboriginal children. The budget includes $16 million for the implementation of an early intensive behavioural support program for autistic children. The ministry's budget is essentially unchanged since the March 15 Budget.

Includes identified program reductions of $24 million

Ministry of Community, Aboriginal and Women's Services — combines certain programs and services formerly provided by nine separate ministries. The increase of $91 million from the 2000/01 budget estimate includes:

- $13 million for funding for low wage redress in the contracted community social services sector and the Community Partners Program;
- $20 million for the new five-year Canada/British Columbia Infrastructure Program. Provincial expenditures will be matched by the federal government, providing $40 million in green infrastructure projects (sewer and water) in British Columbia;
- $20 million for conditional grant programs, with most of the funding to provide for sewer and water projects through the Renewed Sewer/Water Program;
- $45 million for planned Child Care BC initiatives; and
- $27 million for housing programs to provide subsidies for affordable housing units completed in 2001/02;

partially offset by:

- program efficiencies and transfers of $10 million; and
- program reductions since March of $24 million.

Ministry of Competition, Science and Enterprise — down $9 million primarily due to the conclusion of a number of time-limited agreements ($5 million), the elimination of Build BC Special Account disbursements in 2001/02 and reductions to both communications and strategic project funding.

$64 million added for maintenance expenses previously classified as capital expenditures

Ministry of Education — up $233 million. A 5.3-per-cent increase ($204 million) in transfers to public schools provides for capital maintenance; wage and benefit increases for all signed collective agreements; provision for anticipated settlements during 2001/02; funding for the Teachers' Pension Plan Joint Trusteeship Agreement; and a $10-million contingency buffer if enrolment growth is higher than expected. The budget also maintains funding for reduced class sizes in Kindergarten to grade 3 (20 students in Kindergarten and 22 students in grades 1 to 3). The budget provides $21 million for increased amortization and debt service expenditures and an additional $7 million for independent schools. Since March, $64 million was added to the budget for operating maintenance expenses that were previously classified as capital expenditures.

Ministry of Energy and Mines — up $30 million including the addition of $4 million for revenue-generating mineral, oil and gas initiatives, and increased payments required under the Vancouver Island Natural Gas Pipeline (VIGAS) agreement. The level of VIGAS payments is dependent upon prevailing natural gas prices. The increase in ministry expenditure is partially offset by lower program spending in other areas.

Ministry of Finance — up $1 million mainly due to increased amortization costs for the corporate accounting system.

$55 million additional funding for forest fire fighting

Ministry of Forests — up $53 million mainly due to $55 million of additional funding for forest fire fighting that was added to the budget since March, partially offset by lower spending in other areas.

Ministry of Health Planning — unchanged. This new ministry was created from components of the former Ministry of Health.

A total of $143 million added to Health Services since March

Ministry of Health Services — up $1,101 million and includes $387 million in base budget increases related to the supplementary estimates received in 2000/01. Significant components are $53 million for rural physician recruitment and retention initiatives; $180 million for health authority service pressures and strategic initiatives under the BC Health Action Plan; and $67 million for improved access to hospital care, enhanced home support services and the BC Health Guide program.

Notwithstanding the significant budget increase, some $400 million in potential spending pressures have been identified. Management strategies will be required to stay within the overall ministry budget.

The Regional Programs' budget (up $759 million) includes funding for a variety of negotiated and announced compensation provisions and payroll tax changes affecting health care workers, as well as other changes including:

$77 million added for maintenance expenses previously classified as capital

- Acute and Continuing Care, up $698 million (including base budget increases related to 2000/01 supplementary estimates) provides an additional:
  - ➤ $16 million for the operation of new continuing care beds and replacement or upgraded beds;
  - ➤ $39 million for additional home support and nursing;
  - ➤ $70 million for provincial critical services including cancer treatment, cardiac care, renal dialysis and transplants, and other acute care service requirements;
  - ➤ $77 million for operating expenses that were previously classified as capital expenditures, added to the budget since March;

An extra $2 million added for Adult Mental Health

- $37 million for Adult Mental Health including additional funding of $22 million for expanded crisis response and emergency services, more case managers and clinicians and additional community residential care spaces. This includes $2 million for compensation increases that was added to the budget since March; and
- $24 million for Public and Preventive Health including expanded funding for enhanced immunization, chronic disease and injury prevention, and expanded child care facility licensing capacity.

$19 million added for new primary care initiatives

The Medical Services Plan budget will increase $211 million to provide for the annualized costs of 2000/01 settlements with physicians in rural and small urban centres; demographic/utilization increases in physician services; and increased services by, and rate adjustments for, physicians paid through alternative funding arrangements such as service contracts. It also includes $19 million for new primary care initiatives, funded by the federal government, which was added to the budget since March.

$45 million for pressures on the Pharmacare budget

A $58-million lift in the Pharmacare budget is for utilization and price increases. This includes $45 million that was added to the ministry budget since March.

A total of $70 million is provided for equipment; $29 million is included as part of government's capital spending shown in Table 2.13, and $41 million is included in operating spending.

Other increases in the Ministry of Health Services include an additional $41 million for amortization and debt servicing. An additional $7 million was added to the budget since March for Emergency Health Services' compensation increases, which was offset by savings in amortization and debt servicing costs.

In total, $143 million was added to the ministry's budget since the March 15 Budget to recognize unfunded budget pressures.

$7-million reduction in Labour Market Programs

Ministry of Human Resources — up $73 million or 3.9 per cent. BC Benefits Programs will increase $70 million or 4.3 per cent. BC Benefits includes an additional $8 million for increased utilization in the child care subsidy program, $55 million for an increase in the disability benefits caseload, $20 million for the full-year cost of the flat rate earnings exemption, $10 million for increased costs in the health care and dental benefits program, $7 million for the full-year cost of the July 2000 two-per-cent BC Benefits rate increase, $6 million for disability-related new initiatives, and $9 million for other ministry pressures. The budget increases are partially offset by $35 million of savings resulting from a projected 4.7-per-cent-decline in the income assistance and Youth Works caseload and a $10-million reduction in labour market programs, of which $7 million occurred since March.

$14 million for retiring allowance and increased severance settlement costs, offset by $2 million in reductions

Ministry of Management Services — up $12 million. Since March, $14 million was added to the budget to reflect additional funding of $5 million for a retirement allowance, which provides a lump sum payment of up to three months salary upon retirement for employees with more than 20 years of service. This accounting change is in response to a recommendation by the Auditor General that the government record its obligation for post-retirement benefits in its financial statements. Funding of $9 million was added to provide for increased severance settlement costs. The increase in ministry expenditures is partially offset by lower program spending in other areas.

Ministry of Provincial Revenue — up $6 million mainly due to the cost of retroactive home owner grants.

$3 million for photo radar wind-down costs

Ministry of Public Safety and Solicitor General — a $48-million budget increase includes $18 million for police services, $6 million for pre-trial facilities, and additional funding for labour cost increases and other program enhancements. The budget also includes an additional $9 million under the *Emergency Program Act* to better reflect historical expenditures in response to emergencies and disasters. Since March, $3 million has been added for wind-down costs related to the photo radar program.

Ministry of Skills Development and Labour — up slightly due to government-wide salary and benefit increases.

$14 million has been added for the Pacific Marine Heritage Legacy and the Central Coast Land and Resource Management Plan

Ministry of Sustainable Resource Management — up $20 million including an additional $2 million to accelerate landscape-unit planning and $1 million for increased contributions to the Muskwa-Kechika Trust Fund. An additional $14 million was added since March, including $5 million for a contribution to the federal government for land purchases under the Pacific Marine Heritage Legacy (PMHL) agreement, and $9 million to accelerate the Central Coast Land and Resource Management Plan. The government will also provide a $20-million capital investment for the PMHL agreement.

Ministry of Transportation — up $27 million. Net increases are predominantly due to the provision of a $34-million grant to the BC Transportation Financing Authority, which will be applied against the financing costs of capital road improvements. The increases are partially offset by a $23-million decrease in contributions to British Columbia Transit, resulting from a revised method of calculating the amortization of prepaid capital advances. Debt servicing and amortization costs of $15 million for the Rapid Transit 2000 Project are included in the budget because assets are now being brought into service.

A potential $45-million expense for Britannia Mine is partly offset by program reductions of $7 million

Ministry of Water, Land and Air Protection — up $47 million. This includes $4 million to initiate an action plan for protection of drinking water and to restore service levels. Additional adjustments have been made since March to recognize the province's potential $45-million net cost for cleaning up the Britannia Mine, and for program reductions.

Debt interest costs lower by $17 million since March

Management of Public Funds and Debt (debt interest) — down $186 million due to the full-year impact of lower debt levels from the previous year, and lower interest rates on refinanced debt and floating-rate debt. Since March, the forecast has been reduced $17 million mainly due to lower-than-assumed interest rates and delayed borrowing. Although debt for government operating purposes is forecast to increase $2.1 billion by year-end, most of the borrowing will occur in the latter part of the fiscal year. As a result, the full impact on interest costs will be delayed until 2002/03.

BC Family Bonus — down $32 million due to program changes to the federal National Child Benefit System. Effective July 1, 2001, the combined BC Family Bonus and the National Child Benefit Supplement increased to $1,332 from $1,260 per child per year. Changes were also made to the income threshold and rates at which benefits are reduced, resulting in more families receiving the maximum benefit. This resulted in a reduced requirement for provincial funding.

$140 million added to Contingencies to allow for other potential costs

Contingencies (All Ministries) and New Programs — up $255 million to reflect the larger spending budget and a number of spending risks in programs. Since March, $140 million was added to the budget to allow for a number of other potential costs that may occur over the rest of the year.

Amortization of Change in Unfunded Pension Liability — $72 million lower primarily due to the effect of joint trusteeships introduced last year and in April for the major public sector pension plans.

Other Appropriations — up $23 million mainly due to an increase for seismic mitigation costs for government buildings.

Expenditure Assumptions and Sensitivities

The main assumptions supporting the 2001/02 expenditure estimates are summarized in Table 2.9, together with a description of the major risks and sensitivities.

Other Expenditure Assumptions and Risks

Catastrophes and disasters:

The expenditure budgets for the Ministries of Forests and Public Safety and Solicitor General include amounts to fight forest fires and other emergencies such as floods and blizzards. These amounts assume normal to moderate conditions and severity of costs. Although the overall expenditure budget includes a $360-million contingency vote in 2001/02, express provisions are not included for catastrophes or disasters beyond the amounts already identified in ministry budgets. Costs of such unforeseen events may also affect other ministry programs.

TABLE 2.9
MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Special Offices **Elections B.C.** Estimate — $34 million	Provides for the provincial election in 2001.	
Ministry of Advanced Education Estimate — $1,894 million	Reflects: — Approximately 155,800 total funded student spaces in 2001/02. — $47 million increased funding to provide enhanced services for post-secondary students, including 5,025 new student spaces (includes 400 new nurse spaces), enhanced funding for Industry Training and Apprenticeship Commission programs, increased funding for the Technical University of British Columbia and expanded training of health care workers under the Health Action Plan. — $83 million increased support for core funding and cost increases of post-secondary institutions, including compensation for the tuition fee reduction, funding for previously contracted salary and benefit increases, and funding for anticipated contract settlements. — Amortization and debt service costs decrease by $7 million. — Provides an additional $13 million since March for operating maintenance expenditures that were previously classified as capital expenditures.	Not all collective agreement negotiations with college instructors were concluded prior to the budget. Collective agreements with university instructors expire throughout the year.
Student Financial Assistance Estimate — $154 million Authorized student loans: $115 million	The program expects to issue 40,000 BC student loans and 28,000 BC student grants ($83.7 million) based on: — 7% increase in demand in 2001/02 ($18 million); — expanded training of health care workers under the Health Action Plan ($3 million); and — incremental cost of transition from banks to government financing of BC student loans ($3 million). These pressures will be partially offset by savings/ reductions, including: — increased adherence to private school designation policy ($1 million); — increasing verification of student assistance applications, from 4.2% to 5%, in order to meet federal standards ($1.5 million); and — other program streamlining ($1 million).	Demand is beyond the control of government. A 1% change in demand affects costs by $1.5 million. A 1% change in interest rates affects program budget by $3.4 million.
Ministry of Agriculture, Food and Fisheries Estimate — $82 million	Risk management programs, including crop insurance and whole farm insurance, are adequately funded to cover losses from weather hazards and market fluctuations based on historical averages.	An extraordinary agricultural disaster could result in requests for government to cover costs not eligible under existing risk management programs. Current funding for risk management programs is dependent on continued federal/provincial agricultural cost-sharing arrangements.
Ministry of Attorney General Estimate — $552 million		
Court Services Estimate — $138 million	Funds approximately 71,000 Supreme Court cases, 290,000 Provincial Court cases and 1,400 Appeal Court cases.	Costs are affected by large court cases, number of cases pending and number of appearances per case.

TABLE 2.9 — *(Continued)*
MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Justice Services Estimate — $106 million	Provides funding for the Legal Services Society, state-funded counsel, family maintenance enforcement activities, alternate dispute resolution, and administration of family justice services.	Costs are driven by demand, however, risks are relatively low as the majority of services are provided by a third party at a fixed cost.
Treaty Negotiations Office Estimate — $46 million	Provides for resources to support provincial participation in the treaty negotiation process. Assumes that progress will be made toward treaty settlements but no final agreements will be ratified in 2001/02. Provides $2.5 million for the amortization of Nisga'a settlement and implementation costs and $18 million for stumpage collected and transferred to the McLeod Lake Indian Band.	Actual expenditures are affected by the pace of treaty settlements. There is low expenditure risk to the government in 2001/02.
Statutory Services Estimate — $33 million	Provides: — $30 million for *Crown Proceeding Act* settlements; and — $3 million for inquiries that may arise over the course of the year.	Higher-than-assumed *Crown Proceeding Act* settlement volumes and amounts.
Ministry of Children and Family Development Estimate — $1,551 million	Assumes the average monthly children-in-care caseload will increase 4.5%, from 9,860 in 2000/01 to 10,300 in 2001/02. Provides $1.4 million for the continued care of up to 30 migrant children, including those who arrived in 1999. Provides for residential costs of approximately 5,700 adult clients and non-residential costs of approximately 8,250 adult clients in the Community Living Services program. Provides an additional $137 million for direct and indirect compensation costs relating to the community social services agreement (Munroe Agreement).	Ability to manage provincially funded children-in-care caseload at an average of 10,300, within available ministry resources. Average cost per child in care is approximately $26,300 per year. Additional migrant children each cost approximately $50,000 per year. Additional residential beds in the Community Living Services program cost approximately $66,000 each and day programs cost an average of approximately $16,000 per client. Costs could vary depending on the rate of unionization, the demand for labour adjustment, increases in compensation for agency employees in excess of amounts budgeted, and the impact of cost reduction initiatives.
Ministry of Community, Aboriginal and Women's Services Estimate — $562 million	The Provincial Sales Tax Relief Grant Program provides assistance to homeowners repairing damage caused by premature building envelope failure ("leaky condos"). The budget assumes grants to 13,500 homeowners at a cost of $5.2 million.	This issue is currently under review by government.
Ministry of Competition, Science and Enterprise Estimate — $72 million	The ministry is reviewing the Vancouver Convention and Exhibition Centre (VCEC) and the restoration of the Nechako River. The government is also reviewing the operations and finances of Skeena Cellulose Inc. A government decision has not been made regarding these issues.	If the VCEC proceeds, a $26.5-million expenditure would be required by December 2001 to complete the purchase of the site. Up to $50 million over five years would be required to fund all of the recommendations of the Nechako Environmental Enhancement Fund Management Committee Report.
Ministry of Education Estimate — $4,844 million	Enrollment is currently 597,948 students. Assumes 0.8% decrease in enrollment for 2001/02. (Final 2000/01 enrollment was 0.6% lower than 1999/00 enrollment). A $10-million contingency buffer is included for unexpected enrollment growth and changes in student composition. Class size in Kindergarten to grade 3 will be maintained at 20 in Kindergarten and 22 in grades 1 to 3. Funds collective agreements and accords currently in place. The 2001/02 budget includes funding for anticipated settlements for contracts expiring during 2001/02. Provides an additional $22 million, as per the joint trusteeship agreement, for increased employer contributions towards the Teachers' Pension Plan. Provides an additional $64 million since March for operating maintenance expenditures that were previously classified as capital expenditures.	Higher or lower enrollment growth, changes in student composition and changes in space capacity may affect expenditures. A 1% change in enrollment will affect costs by $25 million. Collective agreement negotiations with some non-CUPE support staff were not concluded prior to the budget. The collective agreement with teachers expired June 30, 2001. Higher or lower interest rates will affect debt service expenditures.

TABLE 2.9 — *(Continued)*
MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Ministry of Energy and Mines Estimate — $67 million Vancouver Island gas pipeline (VIGAS) and the Squamish Rate Stabilization Facility — $33 million	Assumes an average natural gas price of Cdn$6 per gigajoule (GJ) at plant inlet in 2001/02.	Each Cdn$1 per GJ increase (or decrease) in the average natural gas price for the fiscal year would create an estimated $6 million budget expenditure (savings).
Ministry of Forests Estimate — $539 million	The $86 million provision for direct forest fire fighting costs is the best estimate of funding at this stage of the fire season.	Dryer-than-normal weather, particularly in the Interior, will affect costs. The annual cost of fighting forest fires has varied from $19 million to $154 million. The U.S. lumber industry filed a countervailing duty petition when the Softwood Lumber Agreement expired on March 31, 2001. The preliminary determination on subsidy is scheduled for July 27, 2001; the final determination is not expected until late this year or early the following year. The ministry's costs to defend the case could total up to $10 million. This includes legal fees, data collection and economic studies.
Ministry of Health Services Estimate — $9,513 million		Potential compensation, inflation and service pressures are placing upward pressure on the existing budget. The potential costs have been identified at over $400 million. In order to stay within the overall ministry budget, management strategies will be required, including reducing/restructuring some services and delayed implementation of new services. This could impact the service delivery assumptions noted below.
Acute and Continuing Care Estimate — $5,183 million	Includes funding of over $5 billion for health authorities and other agencies. This amount is unchanged from March, except for $77 million added to operating expenses that were previously classified as capital expenditures. Funding provides for up to 400,000 acute care inpatient cases, and up to 300,000 day surgery procedure cases. Includes $451 million for community and home-based continuing care services (serving 170,000 clients) of which $39 million is new funding. Provides $1,054.5 million for continuing care residential facilities (25,400 beds). This includes $7.1 million for annualized operating costs of 222 new beds and 204 replacement/upgraded beds opened in 2000/01, and $7.9 million for operating costs of 201 new beds and 277 replacement/upgraded beds scheduled to open in 2001/02. Provides $91.7 million (2,300 patient years) for renal dialysis, including $15.7 million for up to 396 additional renal dialysis patient years. Provides $91.2 million for 11,950 cardiac services, including $6.3 million for up to 1,070 additional cardiac services. Cardiac services include surgery, angioplasty, pacemakers, electrophysiology, and implantable defibrillators. Provides $161.8 million for the BC Cancer Agency, for expanded drug therapy, additional community oncology services, and expansion of cancer centres in Victoria and the Fraser Valley. Of this amount, $15 million is new funding. Provides funding of $18.4 million (0.9% growth) for acute care service impacts resulting from a growing, aging population. Assumes non-wage inflationary pressures can be accommodated within existing base.	A 1% increase in population affects program expenditure by approximately $51 million. Almost all union collective agreements in the health sector expired on March 31, 2001. Collective bargaining is ongoing for several bargaining units, including nurses and paramedicals. A 1% general wage increase affects regional health programs expenditures by approximately $42 million. Potential pressures from severe seasonal illness or the adoption of new, more costly treatment may exceed the enhanced capacity provided for in the budget. Ability to deliver services has been affected by recent job action. This will result in increased costs for out-of-province services and increasing wait times for surgery.

TABLE 2.9 — *(Continued)*

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Adult Mental Health Estimate — $406 million	Provides for the assessment, care and treatment of adults with functional impairment due to mental illness through services supported and delivered via an estimated 1,269 psychiatric care beds, 4,718 housing units, 6,743 rehabilitation spaces, and 7 community forensic psychiatric clinics. Provides additional funding of: • $6.0 million for expanded crisis response and emergency services (75 FTEs & 352 residential care units); • $5.2 million for additional case managers (75 FTEs); and, • $10.3 million for additional community residential care spaces (e.g., 60 licensed residential beds, 500 supported housing units and expanded tertiary care bed capacity). Assumes population growth and inflationary pressures can be accommodated within existing budget.	A 1% increase in the adult population affects expenditures by approximately $4 million. A 1% inflationary increase affects expenditures by approximately $0.7 million.
Public and Preventive Health Estimate — $356 million	Provides for an estimated: • 18,000 inspections of various public facilities and institutions such as waterworks, swimming pools, fish plants and food facilities for public health and safety; • up to 3,400 inspections under community care facility licensing; • BC Centre for Disease Control activities including up to 137,000 prescriptions issued, 27,000 TB clinic visits, 10,000 STD/AIDS clinic visits, and up to 350,000 lab reports; and, • 17,200 visits to retailers of tobacco products and 11,000 clients participating in smoking cessation programs. Includes program funding transferred from the Ministry of Children and Family Development: • $63 million for Addictions Services delivered by contracted agencies. • $75 million for Public Health Services delivered by health authorities. Provides additional funding of $7.6 million for the BC Health Guide initiative, nurse telecare line, and computer-based health resources. Assumes population growth and inflationary pressures can be accommodated within the existing base.	A 1% increase in population affects expenditures by approximately $4 million.
Medical Services Plan Estimate — $2,262 million	Provides for the following services: • 44.8 million patient visits for physician services • 21.4 million diagnostic tests, and • 9.1 million patient visits for supplementary benefit practitioners. The 2001/02 budget provides an additional $30 million for user population growth (1.05%) and utilization (0.75%) of fee-for-service physician services and $19 million for new primary care initiatives funded through a federal government contribution. Assumes user population growth (1.9%) for supplementary benefits. Assumes utilization management measures will be implemented. The Working Agreement and Subsidiary Agreements with the BC Medical Association are subject to binding arbitration.	Total estimated expenditure growth for fee-for-service physician services is 1.7% for population and 1.5% for utilization ($53.6 million) A 1% change in utilization of physician services affects costs by $17 million. A 1% change in utilization of supplementary benefits affects costs by $1.3 million. Reallocations may be required in health spending or overall government spending in order to accommodate the cost of an arbitrated settlement.

TABLE 2.9 — *(Continued)*
MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Pharmacare Estimate — $719 million	Base 2000/01 Pharmacare services are estimated to be: Total prescriptions - 14.7 million, and average cost per prescription - $41.24. The ministry will manage costs to 9% over the 2000/01 base.	A 1% increase in utilization or drug costs affects expenditures by $7.2 million. The ministry may be unable to manage growth to 9%. Total growth is projected to be 16.0%, based on user population growth (3.5%), utilization (4.8%) and price increases (7.7%).
Ministry of Human Resources Estimate — $1,939 million	Total income assistance/Youth Works and disability benefits caseload is expected to decline 1.4% (the decline in 2000/01 was 2.3%). Average caseload for 2001/02 is estimated at 155,435. Income assistance/Youth Works caseload will decline 4.7% (the decline in 2000/01 was 6.3%). Average caseload for 2001/02 is estimated at 112,969. Disability benefits caseload will increase 8.8% (the increase in 2000/01 was 12.3%). Average caseload for 2001/02 is estimated at 42,466. Provides for the incremental costs of the re-introduction of the flat rate earnings exemption in January 2000 ($20 million) and the 2% BC Benefits rate increase in July 2000 ($7 million). $126 million for child-care subsidy provides for 3% growth in demand.	No provision has been made for forecasting error or unanticipated growth in the caseload. A 1% change in the total income assistance/Youth Works and disability benefits caseload affects expenditures by approximately $14.5 million. Income assistance/Youth Works caseload is sensitive to changes in the unemployment rate and in-migration levels. Disability benefits caseload is sensitive to changes in life expectancy, improvements in medical technology and changes in population health. A 1% change in demand affects subsidies expenditures by $1.26 million. The child-care subsidy program is sensitive to changes in provincial child population, family income levels and in family circumstances for which subsidy is allowed, most notably employment and training/ education.
Ministry of Provincial Revenue Estimate — $50 million	Provides $4 million for payment of Home Owner Grants made with respect to the previous property tax year.	Higher than assumed application volumes could increase costs.
Ministry of Public Safety and Solicitor General Estimate — $499 million		
Corrections — Adult Custody Estimate — $174 million	Assumes the number of remanded and sentenced adult offenders remains within the 2,200 to 2,400 target (actual for 2000/01 was 2,310).	Costs are affected by the number of prisoners and immigration and refugee claimants held in provincial correctional facilities. Every 1% change in the prison population affects costs by $1.1 million.
Police Services Estimate — $171 million	Provides provincial funding for 1,694 police officers providing services to municipalities with a population of less than 5,000, rural populations and specialized functions including highway patrol.	Federal allocation to the province and the RCMP allocation to the provincial force may be higher than expected. A higher-than-expected allocation to the provincial force has to be matched by the province. Policing is a provincial responsibility, with the federal government paying for 30% of the provincial force. Each additional provincial officer costs the province $96,000.
British Columbia Gaming Commission — Distribution of Gaming Revenues to Charities Estimate — $103 million	Assumes revenue sharing with charities at $103 million. This provides for inflation and an expected decline of $3 million in direct bingo revenues.	If charitable bingo revenue is 5% lower than assumed, this could result in an increase of $1.4 million in government assistance to charities and operators.
Statutory Services Estimate — $46 million	Provides: — $25 million for *Criminal Injuries Compensation Act* settlements, and — $21 million for emergencies such as floods and blizzards.	Higher-than-assumed volumes for *Criminal Injuries Compensation Act.* An unusual number or severity of natural disasters, such as forest fires or floods.

TABLE 2.9 — *(Continued)*

MAIN EXPENDITURE ASSUMPTIONS AND FORECAST RISKS — CONSOLIDATED REVENUE FUND

Expenditure Area	Key Assumptions	Forecast Risks and Sensitivities
Ministry of Water, Land and Air Protection Estimate — $ 216 million	Provision for net clean-up costs of Britannia mine of $45 million is based on a recent estimated cost of site remediation. (Gross costs are estimated at $75 million with $30 million expected from property owner and other potentially responsible parties.)	Actual costs of site clean-up and remediation could be higher than estimated. Since compensation received from property owner and other potentially responsible parties is capped at $30 million, the province is responsible for any additional costs.
Management of Public Funds and Debt Estimate — $823 million	Long-term and short-term borrowing rates for the fiscal year average 6.6% and 4.7%, respectively. As of July 2001, long-term rates are averaging 6.4%; short-term rates are averaging 4.5%.	1% change in interest rates results in $33 million change in direct operating debt interest expense for the remainder of the fiscal year; up to $64 million change when other taxpayer-supported debt is included.
BC Family Bonus (administered by the Ministry of Finance) Estimate — $120 million	Caseload levels are expected to remain constant (approximately 215,000 families) with family incomes rising slightly. Provincial costs will be reduced due to policy changes in response to improvements to federal benefits for families with children.	A 1% decrease in family incomes, without any change in caseload, results in a $2 million increase in provincial costs.
Contingencies (All Ministries) and New Programs Estimate — $360 million	Provision for uncertain or unforeseen issues arising over the year for which no other budget provision currently exists.	Unforeseen pressures in ministry programs may exceed available appropriations (see pressures to be managed).
Other Appropriations		
Seismic Mitigation Estimate — $30 million	Assumes 23 per cent of planned work for this four-year program will be completed in 2001/02.	Costs of necessary repairs and upgrades could exceed current estimates.
Government-Wide Issues — Compensation	The majority of public sector collective agreements expired March 31, 2001. Settlements have been reached in the direct public service, community health and health facilities sectors. As of June 30, 2001 about 80,000 public sector FTEs were working under expired contracts including nurses, paramedicals, school teachers, and college faculty. The 2001/02 budget includes funding for anticipated settlements for contracts expiring during 2001/02.	It may take over a year to complete all of the negotiations associated with collective agreements expiring in 2001/02. Actual settlements are subject to the outcome of the negotiation process between employers' associations and unions. A 1% increase in compensation for contracts expiring during 2001/02 could result in an increase in direct and indirect labour costs of about $90 million.
	Ministry and agency salary appropriations were increased by 2% in the 2001/02 *Estimates* in anticipation of direct public service compensation increases.	Costs of settlements for the direct public service beyond the budgeted 2% increase must be covered from within ministries' base budgets.
Public Sector Pensions — Joint Trusteeship	Recent changes to Teachers' Pension Plan contribution rates will not change the unfunded pension liability estimated at $368 million (as of March 31, 2001).	An interim actuarial evaluation on the Teacher's Pension Plan will be completed in September 2001. If the valuation indicates an unfunded pension liability greater than $368 million, the positive joint trusteeship agreement adjustment would be reduced by 50% of the amount that the unfunded pension liability exceeds this amount. Conversely, if the unfunded pension liability is less than $368 million, the joint trusteeship agreement adjustment increases by 50% of the difference.
Pressures to be managed	In addition to Health Services, various ministries have identified potential spending pressures, and will be taking action to manage these within their overall budgets: — Attorney General ($30 million), — Children and Family Development ($68 million), — Forests ($26 million), and — Public Safety and Solicitor General ($20 million).	Ministries may not be able to contain demand or make offsetting reductions.

Pending litigation:

The 2001/02 expenditure budget for the Ministry of Attorney General contains provisions for settlements under the *Crown Proceeding Act* based on estimates of expected claims and related costs of settlements likely to be incurred in 2001/02. Other litigation developments may occur that are beyond the assumptions used in the July 30 Update (such as potential costs for a Carrier Lumber Ltd. settlement or pending litigation related to disability Home Owner Grants), and may also affect expenditures in other ministries.

The 2001/02 expenditure budget for the Ministry of Public Safety and Solicitor General contains provisions for settlements under the *Criminal Injuries Compensation Act* based on estimates of expected claims likely to be incurred in 2001/02.

One-time write-downs and other adjustments:

The 2001/02 expenditure budget does not assume or make allowance for extraordinary items other than the amount provided in the Contingencies Vote.

Recoveries within ministry budgets:

A number of ministry budgets assume that a portion of expenditures will be recovered from other agencies. The 2001/02 expenditure budget assumes that budgeted recoveries will be fully realized. Should recoveries be lower than budgeted, this could result in additional net expenditures.

Since the March 15 Budget, the Contingencies (All Ministries) and New Programs Vote has been increased $140 million to allow for a number of potential costs that may occur over the rest of the year. In addition, the summary accounts forecast includes a $500-million forecast allowance for unforeseen developments during the rest of the year. This is $200 million higher than the March 15 Budget.

Crown Corporations and Agencies

Combined Crown corporation net loss projected at $267 million, a $23-million improvement since March

In total, Crown corporations (after adjustments) are forecast to show a net loss to the summary accounts of $267 million in 2001/02, a $23-million improvement from the March 15 Budget. This compares to a combined net loss of $53 million in 2000/01 (see Table 2.2).

Taxpayer-supported Crown Corporations and Agencies

Combined net losses of taxpayer-supported Crown corporations and agencies (after adjustments) are projected at $333 million, up $20 million from the March 15 Budget.

Taxpayer-supported Crown corporations show a $333-million net loss, up $20 million since March

Operating losses totalling $124 million are $20 million higher than the March forecast. This reflects a $53-million expected loss for 552513 British Columbia Ltd. (Skeena Cellulose Inc.), partially offset by improvements in Forest Renewal BC and the British Columbia Buildings Corporation.

Combined net losses (after adjustments) are $123 million higher than the final results for 2000/01. The increase primarily reflects larger losses in Forest Renewal BC and 552513 British Columbia Ltd. (Skeena Cellulose Inc.), lower net incomes of the British Columbia Buildings Corporation and the British Columbia Ferry Corporation, and the effect of one-time asset dispositions in other Crown corporations in 2000/01.

TABLE 2.10

DEVELOPMENTS SINCE THE MARCH 15 BUDGET — CROWN CORPORATIONS AND AGENCIES

	— ($ millions) —	
Combined net loss (after adjustments) — March 15 Budget		**(290)**
Taxpayer-supported Crown corporation changes:		
552513 British Columbia Ltd. (Skeena Cellulose Inc.) — higher losses and reclassification to taxpayer-supported corporation	(53)	
Forest Renewal BC — increased stumpage revenue	32	
British Columbia Buildings Corporation — higher net income	1	(20)
Self-supported commercial Crown corporation changes:		
British Columbia Hydro and Power Authority (including rate stabilization account changes) — higher net income	75	
Insurance Corporation of British Columbia — lower net income	(40)	
Other changes including lower British Columbia Railway Company net income and the reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) to a taxpayer-supported corporation	8	43
Combined net loss (after adjustments) — July 30 Update		**(267)**

British Columbia Buildings Corporation — projected net income of $40 million is slightly higher than the March 15 Budget but $11 million lower than last year. The effect of lower gains from property sales and a 3.5-per-cent increase in operating costs will be partially offset by a 1.6-per-cent increase in operating revenue. The corporation expects to pay a $16-million dividend to the provincial government in 2001/02.

British Columbia Ferry Corporation — estimated net income of $3 million is unchanged from March and $8 million lower than last year. Operating revenue will increase 1.6 per cent mainly due to a toll increase in February 2001, and increased motor fuel tax received from the provincial government. Operating expenses will increase 3.5 per cent, due to higher costs for pensions, training and safety initiatives, existing collective agreements, professional services and debt interest. These are partially offset by a reduction in amortization expense.

BC Transportation Financing Authority — a projected break-even forecast compares to net income of $1 million in the 2000/01. Revenue will increase 8.2 per cent, largely due to a $44-million grant and increased dedicated taxes received from the provincial government. Expenditure will increase 8.4 per cent mainly due to higher debt interest costs (reflecting higher debt levels) and increased amortization.

Forest Renewal BC loss is $32 million lower since March

Forest Renewal BC — a projected net loss of $107 million is $32 million lower than the March forecast, but $43 million higher than last year due to lower stumpage revenue and investment income and a 3.1-per-cent increase in costs. The corporation will manage its projected deficit by accessing its program continuity reserve.

$53-million loss is now projected relating to the Skeena Cellulose investment

552513 British Columbia Ltd. (Skeena Cellulose Inc.) — a projected net loss of $53 million compares to the March 15 Budget forecast of $6 million net income. The change from March primarily reflects the impact of lower-than-assumed pulp prices. Due to an outlook for weak world pulp prices, and the expected effect on the finances of the company, 552513 British Columbia Ltd. has been reclassified from a self-supported to a taxpayer-supported Crown corporation.

Other taxpayer-supported Crown corporations and agencies: combined net losses of $7 million are unchanged from the March forecast. This compares to combined net incomes of $49 million in 2000/01. The change from last year reflects the effect of a one-time $18-million gain from the sale of 577315 British Columbia Ltd.'s investment in Western Star Trucks Holding Ltd. in 2000/01, and lower net incomes in other Crown corporations in 2001/02.

Self-supported Commercial Crown Corporations and Agencies

Net income forecasts for self-supported Crown corporations total $66 million, up $43 million from March

The net contribution from self-supported commercial Crown corporations (after adjustments) is forecast at $66 million in 2001/02, up $43 million from the March 15 Budget forecast. Including BC Hydro's rate stabilization account transfer, total operating income of $1.6 billion is up $14 million from the March forecast. Higher projected net income in BC Hydro is partially offset by lower net incomes of the Insurance Corporation of British Columbia (ICBC), British Columbia Railway Company and other Crown corporations. The rest of the improvement from the March forecast reflects a $29-million reduction in dividends paid to the CRF due to a re-estimate of BC Hydro dividends.

Combined net contributions from self-supported commercial Crown corporations is $91 million lower than 2000/01. The decline from the previous year was mainly due to lower net incomes of BC Hydro (including rate stabilization account transfers), ICBC and the Liquor Distribution Branch, and lower accounting adjustments for differences in fiscal year-ends.

BC Hydro forecasts net income of $375 million (before rate stabilization account transfers), up $75 million since March

British Columbia Hydro and Power Authority — net income is projected at $375 million (before rate stabilization account transfers). The forecast is $75 million higher than the March 15 Budget target mainly due to high electricity trade margins earned during the first two months of the fiscal year. A trade margin is generally the difference between the purchase and the selling price of electricity. The forecast assumes no change in domestic tariff rates. It incorporates the impact of recently announced price caps in the California energy market and assumes that a $45-million transfer will be required from the rate stabilization account in order to achieve BC Hydro's regulated rate of return in 2001/02.

BC Hydro was able to earn a larger-than-expected income during the first two months of the fiscal year as it was able to take advantage of the unexpectedly high volatility in the market to increase its trade margins. The recent introduction of price caps within the western region in mid-June 2001, has dampened the volatility in the market and as a result has reduced the margins BC Hydro is able to earn in the electricity trade market. The forecast of net income for 2001/02 is lower than the previous year largely due to the impact of low snowpack levels on reservoir inflows leading to the increased use of higher-cost energy purchases in comparison to hydro-generation. Lower electricity trade margins for the remainder of the year, largely due to price caps in the region, also contribute to the lower net income forecast compared to last year.

Liquor Distribution Branch — projected net income of $616 million, unchanged from the March forecast and 4 per cent lower than 2000/01. The decline from last year mainly reflects a 2.3-per-cent increase in product and operating costs (due to amortized costs of a new retail management system), and additional costs relating to the shutdown of glass breakers and wage settlements and some one-time adjustments.

British Columbia Lottery Corporation — net income of $585 million is unchanged from the March forecast and $23 million higher than 2000/01. Increased revenue from relocated casinos and increased lottery sales is partially offset by higher costs for prizes, commissions and operations.

British Columbia Railway Company — a net income forecast of $1 million in 2001 is $17 million lower than the March forecast mainly due to an outlook for lower revenue from rail and container traffic. An $8-million improvement from the previous year largely reflects the effect of a one-time provision of $13 million in 2000 for anticipated environmental remediation costs. The corporation does not expect to pay a dividend to the provincial government in 2001/02.

At $35 million, ICBC's net income forecast is $40 million lower than March

Insurance Corporation of British Columbia — a net income forecast of $35 million is $40 million lower than the March 15 Budget target. Net income is projected to be $104 million lower than in 2000 (after deducting road safety dividends). Re-estimates of the costs of settling previous years' injury claims are not expected to result in the same level of significant savings as they did in 2000. This will result in an overall increase in claims costs but is partially offset by higher premium revenue due to increased sales.

Other commercial Crown corporations and agencies: a combined net income forecast of $3 million is $4 million lower than the March forecast mainly due to a reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) to a taxpayer-supported Crown corporation (the March forecast included a net income forecast of $6 million).

Crown Corporations Forecast Assumptions and Risks

The main assumptions supporting the forecasts are summarized in Table 2.11 together with a description of the material risks and sensitivities.

Other Forecast Assumptions and Risks

Crown corporations and agencies have provided their own forecasts which were used to prepare the summary accounts forecast for 2001/02, as well as the statement of assumptions and risks. The boards of those corporations and agencies have reviewed these forecasts.

The July 30 Update for 2001/02 does not assume or make allowance for extraordinary adjustments other than those noted in the assumptions provided by the Crown corporations and agencies. Factors such as weather, electricity prices, fuel costs and accident trends could significantly change assumptions and resulting forecasts. The 2001/02 summary accounts forecast includes a $500-million forecast allowance for unforeseen developments affecting the government and its Crown corporations during the rest of the year.

Capital Spending

Capital spending is projected at $2.9 billion, down $134 million from the March budget

Provincial debt includes borrowing for schools, hospitals, transportation, utilities and other capital infrastructure projects. Capital spending for 2001/02 is estimated at $2.9 billion, down $134 million from the March 15 Budget. The decrease primarily reflects the reclassification of $154 million in maintenance costs previously budgeted as capital expenditures and now included in ministry operating budgets (primarily Health Services, Education and Advanced Education). An overview of this change is outlined in Table 2.12 and the adjustments in capital spending are reflected in Table 2.13. This reduction was partially offset by additional spending for minor capital purchases by government ministries and the delayed purchase of land for the future site of the Pacific National Exhibition (previously forecast to take place in 2000/01).

TABLE 2.11
MAIN CROWN CORPORATION FORECAST ASSUMPTIONS AND RISKS

Crown Corporation	Key Assumptions	Forecast Risks and Sensitivities
British Columbia Buildings Corporation Net income forecast: $40 million	Gains on disposal of properties at $7 million. Revenue assumes a $2-million increase in occupancy charges subject to Treasury Board approval. Up to $85 million in capital spending. This includes capital spending of approved client projects and capital spending for recoverable commercial projects. Assumes energy costs of $26 million. Average short/long-term borrowing rate assumed at 5.4%. Dividend to CRF of $16 million.	Value and timing of property sales depend on market. Capital spending dependent on timing of projects and approval limits for ministry clients. 1% change in interest rates affects interest expense by $1 million. 10% change in energy costs affects net income by about $3 million.
British Columbia Ferry Corporation Net income forecast: $2.5 million	Toll projections based on current traffic volume trends and the corporation's business initiatives. Incorporates toll increase introduced in February 2001. Assumes fuel costs of $54 million. $74 million of dedicated motor fuel tax received from provincial government. Major capital expenditures of $89 million. Does not assume sale of *PacifiCats* in 2001/02.	1% change in volumes affects revenues by about $6 million. 1% change in fuel prices affects fuel costs by $0.5 million. Sale of *PacifiCats* in 2001/02 may affect net income depending on sale proceeds. Changes in interest rates do not have material affect on expenses due to low level of debt.
BC Transportation Financing Authority Net income forecast: Balanced	$204 million of dedicated provincial taxes received from provincial government. Capital spending of $331 million. Average floating/new fixed-rate borrowing rate assumed at 6.0%.	1% change in provincial fuel consumption volumes affects revenue by $2 million. Weather patterns can delay projects. Construction costs sensitive to inflation. 1% change in floating/new fixed-rate interest rates equals a $5-million change in interest costs.
Forest Renewal BC Net loss forecast: $107 million	Revised transfers as per forest revenue assumptions in Table 2.6. Expenditures occur as per published business plan. Assumes $35 million deposited to trust fund to help mitigate the impact of land decisions on the Central Coast.	±10% in harvest volumes = ±$22M. ±US$50/tonne in pulp prices = ±$7M. ±US$50/1,000 bd. ft. in SPF prices = ±$51M. ±US$100/1,000 bd. ft. in hemlock prices = ±$6M. See Table 2.6 for other forests risks. Effects of the termination of the Canada/U.S. Softwood Lumber Agreement and the countervailing duty investigation are unknown. A government review of programs could affect operations and financial projections.
British Columbia Hydro and Power Authority Net income forecast: $375 million (before transfer from rate stabilization account of $45 million)	Forecast based on estimated June 1, 2001 snowpack levels, water inflow levels at 81% of normal and normal weather patterns for the rest of the year. Domestic customer growth of 1.2%. Export revenue and short-term energy purchase costs based on estimated forward market prices as of June 20, 2001 Assumes no change in domestic tariff rates. Assumes average long-term interest rates of Cdn. 6.0% and US 6.3%, and an average exchange rate of approximately 65 cents US/Cdn$. Capital spending of $600 million. Dividend to CRF of $346 million.	10% change in average temperatures equals $90-million change in income. 100 GWh change in water inflows equals a $10-million change in operating income. $10/MWh change in electricity trade margins equals $160-million change in operating income. 10% change in natural gas prices equals $30-million change in operating income. 100 basis points change in borrowing rates equals $15-million change in finance costs. 1-cent change in exchange rates affects financing costs by $8 million. Regulatory developments in the U.S. market could affect the forecast.

TABLE 2.11 — *(Continued)*
MAIN CROWN CORPORATION FORECAST ASSUMPTIONS AND RISKS

Crown Corporation	Key Assumptions	Forecast Risks and Sensitivities
British Columbia Liquor Distribution Branch Net income forecast: $616 million	Net sales increase of 0.4% incorporates current and expected consumption trends and markup modifications for craft brewers. Includes amortization cost of new retail management system. Capital spending of $31 million.	Price competition and economic conditions affect sales. Manufacturer price changes can be unpredictable. Weather patterns and timing of statutory holidays affect consumption. 1% change in sales volume affects net income by up to $6 million. Higher-than-assumed credit card use could increase collection costs.
British Columbia Lottery Corporation Net income forecast: $585 million	Sales projections based on current trends. Prize payout rates based on historical and current trends. Expansion of lottery retail network by 140 accounts. Relocation of two casinos — one in October 2001 and one in January 2002. No changes to approved gaming policy (e.g. expanded gaming). Does not include impact of a re-introduction of WCB smoke-free regulations. Capital spending of $26 million.	1% change in gaming activity could affect net income by $6 million. Retail network expansions could be delayed. One-month delay in a relocation could reduce net income by up to $1.5 million. Labour disruptions at casino service providers could reduce net income. Changes in disposable income, tourism, competitive markets in other jurisdictions, and volumes of jackpot rollovers also affect sales. For example, the announced tax cuts could result in higher-than-assumed product sales and other activity.
British Columbia Railway Company Net income forecast: $1 million	Freight traffic volumes based on low lumber prices and no significant work disruptions at major customer groups (e.g. pulp mills) or connecting carriers. No significant disruptions from labour disputes or protest groups. Fuel costs to remain at current futures contract prices for the rest of the year. Foreign exchange rates to remain at current levels for the remainder of the year. Capital spending of $72 million. No dividend paid to provincial government. No negative impact from further rationalization in the forest industry.	Traffic revenue from lumber, pulp and other commodities could be affected by changes in commodity prices (e.g. lower lumber/pulp prices leading to reduced production in lumber/pulp mills). Total traffic disruption could reduce net income by $4 million per week. 1% change in interest rates affects interest costs by $0.5 million. Further action against the lumber industry by the U.S. in the form of countervailing duties and other anti-dumping measures could negatively affect lumber and wood chip traffic.
Insurance Corporation of British Columbia (Including ICBC Properties Ltd.) Net income forecast: $35 million	Revenue earned from policy premiums to grow 2% due to increased customers and policy coverage. Loss of optional coverage market share at 1%. No change in overall premium rates assumed in 2001. Claims-incurred costs will not increase from the previous year. Continuation of existing road safety and loss mitigation programs. 2000 results included a $266-million positive adjustment due to lower estimates of the costs of settling previous year claims. A smaller adjustment is expected in 2001. Capital spending at $43 million for main operations and property investment (through ICBC Properties Ltd.) at $108 million.	1% change in volume affects revenue by $25 million. 1% change in market share affects revenue by $10 million. 1% change in optional premium rates affects revenue by $10 million. 1% deviation from assumed claims trend affects claims costs by about $20 million. 1% change in prior year claims estimate is equivalent to $40 million. Adverse judgments on outstanding litigation, such as those relating to claims cost control, may affect the 2001 forecast. Costs of claims could be affected by driver behaviours in response to the cancellation of photo radar.

TABLE 2.12
DEVELOPMENTS SINCE THE MARCH 15 BUDGET — CAPITAL SPENDING

	$ millions	
Total capital expenditures — March 15 Budget		**3,037**
Taxpayer-supported capital changes:		
Capital maintenance spending reclassified as operating expenses (added to ministry operating budgets):		
— Advanced Education	(13)	
— Education	(64)	
— Health	(77)	
	(154)	
PNE relocation land purchase	20	
Ministry capital increases	29	
552513 British Columbia Ltd. (Skeena Cellulose Inc.) reclassified from commercial Crown corporation status to taxpayer-supported	17	
Other capital spending changes	(6)	(94)
Self-supported commercial capital changes:		
552513 British Columbia Ltd. (Skeena Cellulose Inc.) reclassified as taxpayer-supported corporation	(45)	
Columbia Power Corporation/Columbia Basin Trust projects and other capital spending changes	5	(40)
Total capital expenditures — July 30 Update		**2,903**

Capital Budget reduced by $154 million for maintenance expenses that have been added to ministry operating budgets

The government has undertaken a detailed review of its operating and capital spending to ensure that expenditures have been correctly classified in accordance with the government's accounting policy. As a result, some capital maintenance expenditures were reclassified as operating expenses of ministries while some operating expenses were reclassified as capital expenditures. With the completion of the 2000/01 *Public Accounts*, $154 million of capital spending items in the March 15 Budget have been removed from the 2001/02 capital budget and added to ministry operating expense budgets consistent with the government's accounting policies.

Compared to 2000/01, capital expenditures will increase $104 million as higher capital spending by self-supported commercial Crown corporations (primarily BC Hydro) will be partially offset by reduced spending for taxpayer-supported capital projects (see Table 2.13).

The capital spending amounts may be affected by various factors including:

- weather and geotechnical conditions causing project delays;
- changes in market conditions including inflation, borrowing costs and wage settlements;
- scope, design and technology changes;
- building code changes;
- negotiated agreements on school class sizes;
- municipal requirements including zoning amendments;
- environmental impact studies; and
- cost-sharing agreements with other jurisdictions.

As the financial impact of these risks is difficult to estimate, and because some risks are offsetting, a monetary value is not provided.

TABLE 2.13
GOVERNMENT, CROWN CORPORATIONS AND AGENCIES — CAPITAL EXPENDITURES

	Actual 2000/01	2001/02 March 15 Budget	2001/02 July 30 Update	Increase (Decrease)[1]
	($ millions)			(per cent)
Taxpayer-supported:				
Capital plan:				
Education	388	505	428	10.3
Health	411	401	324	(21.2)
BC Transportation Financing Authority	474	331	331	(30.2)
British Columbia Ferry Corporation	59	89	89	50.8
Rapid Transit Project 2000	366	348	348	(4.9)
Other[2]	69	69	93	34.8
Gross capital plan	1,767	1,743	1,613	(8.7)
Less: recoverable expenditures[3]				
Hospital districts	(46)	(56)	(50)	8.7
Greater Vancouver Transportation Authority (*TransLink*)	(18)	(39)	(39)	116.7
Net capital plan	1,703	1,648	1,524	(10.5)
Other taxpayer-supported:				
Government operating (ministries)	183	264	293	60.1
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[4]	81	—	17	(79.0)
Social housing[5]	43	20	14	(67.4)
Other[6]	18	44	34	88.9
Total taxpayer-supported	**2,028**	**1,976**	**1,882**	(7.2)
Self-supported commercial:				
British Columbia Hydro and Power Authority	412	600	600	45.6
British Columbia Railway Company	122	72	72	(41.0)
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[4]	—	45	—	—
Columbia Power Corporation	63	66	71	12.7
Columbia Basin Trust - joint ventures	63	66	70	11.1
Insurance Corporation of British Columbia	39	43	43	10.3
ICBC Properties Ltd.	39	108	108	176.9
British Columbia Lottery Corporation	13	26	26	100.0
Liquor Distribution Branch	20	35	31	55.0
Total self-supported commercial	**771**	**1,061**	**1,021**	32.4
Total capital expenditures	**2,799**	**3,037**	**2,903**	3.7

[1] Percentage change between the July 30 Update and the 2000/01 actual.
[2] British Columbia Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development, British Columbia Transit and the Pacific National Exhibition.
[3] Expenditures by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority (*TransLink*).
[4] Based on a revised outlook for lower world pulp prices and its potential impact on the finances of 552513 British Columbia Ltd. (Skeena Cellulose Inc.), the company has been reclassified from self-supported to taxpayer-supported in 2000/01.
[5] Net of construction costs recoverable from non-profit societies.
[6] Includes British Columbia Buildings Corporation (non-capital-plan projects), B.C. Pavilion Corporation, British Columbia Securities Commission, Tourism British Columbia and British Columbia Assessment Authority.

TABLE 2.13
GOVERNMENT, CROWN CORPORATIONS AND AGENCIES — CAPITAL EXPENDITURES

	Actual 2000/01	2001/02 March 15 Budget	2001/02 **July 30 Update**	Increase (Decrease)[1]
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Capital plan:				
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Other[2]	69	69	93	34.8
Gross capital plan	1,767	1,743	1,613	(8.7)
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Self-supported commercial:				
British Columbia Hydro and Power Authority	412	600	600	45.6
British Columbia Railway Company	122	72	72	(41.0)
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[4]	—	45	—	—
Columbia Power Corporation	63	66	71	12.7
Columbia Basin Trust - joint ventures	63	66	70	11.1
Insurance Corporation of British Columbia	39	43	43	10.3
ICBC Properties Ltd.	39	108	108	176.9
British Columbia Lottery Corporation	13	26	26	100.0
Liquor Distribution Branch	20	35	31	55.0
Total self-supported commercial	**771**	**1,061**	**1,021**	32.4
Total capital expenditures	**2,799**	**3,037**	**2,903**	3.7

[1] Percentage change between the July 30 Update and the 2000/01 actual.
[2] British Columbia Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development, British Columbia Transit and the Pacific National Exhibition.
[3] Expenditures by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority (*TransLink*).
[4] Based on a revised outlook for lower world pulp prices and its potential impact on the finances of 552513 British Columbia Ltd. (Skeena Cellulose Inc.), the company has been reclassified from self-supported to taxpayer-supported in 2000/01.
[5] Net of construction costs recoverable from non-profit societies.
[6] Includes British Columbia Buildings Corporation (non-capital-plan projects), B.C. Pavilion Corporation, British Columbia Securities Commission, Tourism British Columbia and British Columbia Assessment Authority.

TABLE 2.14
CAPITAL PROJECTS GREATER THAN $50 MILLION

Project	Start Date	Forecast Completion Date	Cumulative Spending at Mar. 31, 2001[1]	+ Estimated Spending 2001/02	= Estimated Cumulative Spending at Mar. 31, 2002	Total Project Budget[2]	Total Project Forecast[2]
				($ millions)			
Transportation							
Vancouver Island Highway	1991	Fall 2002	1,214	42	1,256	1,308[3]	1,308[3]
Lion's Gate Bridge	May 1998	Sept. 2001	99	9	108	108	108
Port Mann Bridge/Cape Horn Interchange	Aug. 1998	March 2003	46	24	70	74	74
SkyTrain Extension — Phase 1	Sept. 1998	Dec. 2002	820	283	1,103	1,167	1,167
SkyTrain Fleet Expansion	Oct. 1998	Sept. 2001	62	2	64	68	64
Nisga'a Highway	Aug. 1998	Fall 2005	14	7	21	52	52
Health Facilities							
Vancouver General Hospital	Sept. 2000	2004[4]	12	32	44	156	156
Royal Jubilee Hospital (Victoria)	Aug. 1999	Dec. 2001	68	45	113	116	116
Surrey Memorial Hospital	July 1998	Nov. 2001	69	8	77	77	77
Prince George Regional Hospital	Spring 2001	April 2004	6	14	20	50	50
Fraser Valley Health Centre	April 2001	March 2006	—	2	2	178	178
Nelson Health Campus	April 2001	June 2006	—	1	1	63	63
Power Generation							
British Columbia Hydro and Power Authority							
• Stave Falls Replacement	Feb. 1995	2003[5]	137	4	141	181	144
• Burrard Upgrade	June 1993	March 2003					
— Burrard Upgrade (including units 4 to 6 SCRs)[6]			112	22	134	176	174
— Burrard Units 1 to 3 SCRs Installation[6]			39	5	44	46	44
Total Burrard Upgrade			151	27	178	222	218
• Port Alberni Power Generation[7]	April 2000[8]	Nov. 2003	5	42	47	180	180
• Georgia Strait Pipeline Crossing[7]	April 2000[8]	Fall 2003	9	36	45	131	131
• Addition of Fourth Generating Unit at Seven Mile Dam	Feb. 1995[8]	March 2004	9	30	39	89	93
Arrow Lakes Power Company[9]							
• Arrow Lakes Generating Station	Feb. 1999	Dec. 2002	164	102	266	270	270
Other							
ICBC Properties Ltd.							
• Surrey City Centre (includes Technical University of British Columbia)	Sept. 1999	Jan. 2003	85	108	193	253	253

[1] Total expenditures since commencement of each project.
[2] Represents sum of annual budgeted expenditures to complete each project.
[3] Adjusted for inflation. Budget in 1993 dollars is $1.2 billion.
[4] Project components were completed starting in December 2000 and will continue over the next four years.
[5] In service as of December 1999. Additional costs will be incurred, but the project is substantially completed.
[6] Burrard generating station upgrade includes installation of Selective Catalytic Reduction (SCRs) system on all 6 generating units. SCRs reduce emissions from the units and were required to meet the air quality standards for the Greater Vancouver Regional District.
[7] Joint ventures with private sector partners. Amounts shown represent BC Hydro's 50-per-cent share of the costs; however, only partial funding has been approved to date.
[8] Initial planning, preliminary field work and engineering design costs. Physical construction will begin at a later date.
[9] A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

TABLE 2.14
CAPITAL PROJECTS GREATER THAN $50 MILLION

Project	Start Date	Forecast Completion Date	Cumulative Spending at Mar. 31, 2001[1]	Estimated Spending [illegible]	Estimated Cumulative Spending at Mar. 31, 2002	Total Project Budget[2]	Total Project Forecast[2]
			($ millions)				
Transportation							
Vancouver Island Highway	1991	Fall 2002	1,214	42	1,256	1,308[3]	1,308[3]
Lion's Gate Bridge	May 1998	Sept. 2001	99	9	108	108	108
Port Mann Bridge/Cape Horn Interchange	Aug. 1998	March 2003	46	24	70	74	74
SkyTrain Extension — Phase 1	Sept. 1998	Dec. 2002	820	283	1,103	1,167	1,167
SkyTrain Fleet Expansion	Oct. 1998	Sept. 2001	62	2	64	68	64
Nisga'a Highway	Aug. 1998	Fall 2005	14	7	21	52	52
Health Facilities							
Vancouver General Hospital	Sept. 2000	2004[4]	12	32	44	156	156
Royal Jubilee Hospital (Victoria)	Aug. 1999	Dec. 2001	68	45	113	116	116
Surrey Memorial Hospital	July 1998	Nov. 2001	69	8	77	77	77
Prince George Regional Hospital	Spring 2001	April 2004	6	14	20	50	50
Fraser Valley Health Centre	April 2001	March 2006	—	2	2	178	178
Nelson Health Campus	April 2001	June 2006	—	1	1	63	63
Power Generation							
British Columbia Hydro and Power Authority							
• Stave Falls Replacement	Feb. 1995	2003[5]	137	4	141	181	144
• Burrard Upgrade	June 1993	March 2003					
— Burrard Upgrade (including units 4 to 6 SCRs)[6]			112	22	134	176	174
— Burrard Units 1 to 3 SCRs Installation[6]			39	5	44	46	44
Total Burrard Upgrade			151	27	178	222	218
• Port Alberni Power Generation[7]	April 2000[8]	Nov. 2003	5	42	47	180	180
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• Addition of Fourth Generating Unit at Seven Mile Dam	Feb. 1995[8]	March 2004	9	30	39	89	93
Arrow Lakes Power Company[9]							
• Arrow Lakes Generating Station	Feb. 1999	Dec. 2002	164	102	266	270	270
Other							
ICBC Properties Ltd.							
• Surrey City Centre (includes Technical University of British Columbia)	Sept. 1999	Jan. 2003	85	108	193	253	253

[1] Total expenditures since commencement of each project.
[2] Represents sum of annual budgeted expenditures to complete each project.
[3] Adjusted for inflation. Budget in 1993 dollars is $1.2 billion.
[4] Project components were completed starting in December 2000 and will continue over the next four years.
[5] In service as of December 1999. Additional costs will be incurred, but the project is substantially completed.
[6] Burrard generating station upgrade includes installation of Selective Catalytic Reduction (SCRs) system on all 6 generating units. SCRs reduce emissions from the units and were required to meet the air quality standards for the Greater Vancouver Regional District.
[7] Joint ventures with private sector partners. Amounts shown represent BC Hydro's 50-per-cent share of the costs; however, only partial funding has been approved to date.
[8] Initial planning, preliminary field work and engineering design costs. Physical construction will begin at a later date.
[9] A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

As required under the *Budget Transparency and Accountability Act*, significant capital projects with multi-year budgets totalling $50 million or more are shown in Table 2.14. The annual allocations of the full budget for these projects are included as part of the provincial government's capital spending shown in Table 2.13. Total spending on these major projects in 2001/02 is estimated at $818 million, and the cumulative total at March 31, 2002 is forecast at $3.8 billion.

As of March 31, 2001, $2.3 billion was spent over a number of years on major transportation capital projects including the Vancouver Island Highway and the *SkyTrain* extension. In 2001/02, a further $367 million will be spent on major transportation projects, with the largest share for *SkyTrain*.

Cumulative spending on major health facilities will increase $102 million to total $257 million to the end of 2001/02, with significant spending for the Surrey Memorial Hospital and the Royal Jubilee Hospital in Victoria. The revised forecast for the completion of all major health facilities totals $640 million.

Spending for power generation capital projects by the British Columbia Hydro and Power Authority and Arrow Lakes Power Company will increase $241 million to total $716 million by the end of 2001/02. These agencies are self-supported and the combined revised forecast for these projects is estimated at $1 billion.

ICBC Properties Ltd. (a unit of the Insurance Corporation of British Columbia) will have invested $193 million by the end of 2001/02 on the acquisition and renovation of Surrey City Centre (including space for the Technical University of British Columbia). The total budget for the Surrey City Centre development is $253 million.

Table 2.15 provides a partial list of the many projects occurring throughout the province in 2001/02. It contains projects moderate to large in size that are situated in various regions in the province and sponsored by various ministries and agencies.

TABLE 2.15
2001/02 CAPITAL EXPENDITURE PROJECTS (Partial List)

Education facilities
- — school construction in Burnaby, Victoria, Surrey, Kelowna, Richmond, Sooke, Cobble Hill, Kamloops, Cranbrook, Decker Lake, Burns Lake, Abbotsford, Vancouver, Maple Ridge, Coquitlam, Penticton, Nanaimo, Comox/Courtenay, Terrace, Maple Bay, Chemainus; and
- — post-secondary construction in Merritt, Nanaimo, Prince George and Kelowna.

Health facilities
- — construction of the Royal Jubilee Hospital Diagnostic and Treatment Centre and renal facility in Victoria;
- — fit-out of the Vancouver General Hospital tower, construction of a new Ambulatory Care building at Children and Women's Health Centre, and construction of the SUCCESS Care Home in Vancouver;
- — replacement of the Kitimat Health Centre;
- — 2nd floor redevelopment and construction of a Tertiary Psychiatric Facility at the Royal Inland Hospital in Kamloops;
- — replacement of Yucalta Lodge multi-level care facility in Campbell River;
- — redevelopment of Fort St. John General Hospital;
- — replacement of Fair Haven Care Home in Vancouver;
- — replacement of health centre in Alert Bay;
- — construction of new health care centre in Clearwater;
- — replacement of MSA Hospital with the Fraser Valley Health Centre and addition of the Eastern Fraser Valley Cancer Centre in Abbotsford;
- — replacement of the Kootenay Lake Regional Hospital and Mt. St. Francis Hospital with the Nelson Health Campus in Nelson; and
- — replacement of Omineca Lodge in Vanderhoof.

Justice facilities
- — construction of the Okanagan Correction Centre in Kelowna;
- — construction of the Victoria Youth Custody Centre; and
- — construction of addition to court house in Chilliwack.

Roads and transportation
- — construction of the Millennium Line of the *SkyTrain* extension;
- — road improvement projects throughout the province (e.g. rehabilitation, passing lanes, highway realignments, minor improvements);
- — continued rehabilitation of Lion's Gate Bridge;
- — continued five-laning of Port Mann Bridge and associated improvements to the Cape Horn Interchange;
- — continued twinning of the John Hart Bridge over the Nechako River in Prince George;
- — continued replacement of Lytton Bridge on Highway 12;
- — improvements to Highway 37 between Deltaic Creek and Kiniskan Lake;
- — improvements to Nisga'a Highway 37 between Lava Beds Provincial Park and Greenville, and construction of the Greenville — Kincolith Connector;
- — improvements to Highway 1 between Cache Creek and the Rockies;
- — continued construction of the Inland Island Highway from Courtenay to Campbell River;
- — four-laning of Highway 97C between Garcia Lake and Aspen Grove;
- — continued twinning of the Sea Island Crossing of the Fraser River (to Vancouver International Airport);
- — start of construction of new 110-car ferry;
- — start of expansion of Horseshoe Bay ferry terminal;
- — rail and tie replacement and roadbed improvements throughout the province; and
- — rail equipment purchases.

Power generation and related activities
- — upgrade of the Burrard generating station in part to improve air quality;
- — initial planning, preliminary field work and engineering design costs for construction of a generating station in Port Alberni;
- — initial planning, preliminary field work and engineering design costs for natural gas pipeline crossing of Georgia Strait;
- — refurbishment of Keogh generating station near Port Hardy;
- — addition of fourth generating unit at Seven Mile Dam near Trail;
- — seismic improvements at Seven Mile and Coquitlam Dams;
- — G.M. Shrum turbine runner replacements at the W.A.C. Bennett Dam;
- — enterprise geographic information system;
- — Peoplesoft/Indus integrated package implementation to help improve business practices;
- — continued construction of a power generating facility at Keenleyside Dam; and
- — dam stabilization, switchyard construction and turbine upgrades at the Brilliant Dam.

2001/02 Provincial Debt[1]

The government and its Crown corporations borrow to finance their operations (for example, when expenditures exceed revenues), to finance construction of capital projects or other investments, to refinance maturing debt and to finance working capital needs. Provincial debt is reported using two classifications:

- *Taxpayer-supported debt* includes debt for government operating and capital purposes, and debt of Crown corporations and agencies that require a subsidy from the provincial government.
- *Self-supported debt* includes debt of commercial Crown corporations and the warehouse borrowing program. Commercial Crown corporation debt is generally used to finance capital since enough revenue is earned through the sale of services at commercial rates to cover operating expenses, interest costs, and principal repayments. Warehouse borrowing is used to take advantage of market opportunities to borrow in advance of requirements. These funds are invested until they are needed by the government or its Crown corporations and agencies.

Roughly $25 billion or 75 per cent of total provincial debt (excluding the warehouse borrowing program) reflects investments in capital assets — schools, hospitals, roads, transportation, utilities, and other forms of provincial infrastructure.

TABLE 2.16
DEVELOPMENTS SINCE THE MARCH 15 BUDGET — PROVINCIAL DEBT

	($ millions)	
Total provincial debt at March 31, 2002 — March 15 Budget		**34,666**
Taxpayer-supported debt changes:		
Provincial government direct operating — higher debt due to revised summary accounts fiscal outlook	2,406	
Education, health and transportation capital — lower capital spending	(209)	
Reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) as taxpayer-supported debt and revised forecast of additional debt	356	
Other debt changes	(3)	2,550
Self-supported debt changes:		
British Columbia Hydro and Power Authority — reduced debt	(306)	
Reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) as taxpayer-supported debt	(327)	
Other debt changes	(5)	(638)
Debt forecast allowance — increase to match summary forecast allowance		200
Total provincial debt at March 31, 2002 — July 30 Update		**36,778**

Total provincial debt is forecast at $36.8 billion at March 31, 2002, up $2.1 billion from the March 15 Budget

Total provincial debt is estimated to be $36.8 billion at March 31, 2002, or 28.2 per cent of provincial gross domestic product (GDP). This is $2.1 billion higher than the March 15 Budget and $2.9 billion higher than in 2000/01 (see Table 2.16).

[1] Debt amounts are reported on a net debt basis, after deducting accumulated sinking funds set aside for debt repayment, and after accounting adjustments (e.g. unamortized discounts).

Taxpayer-supported debt is up $2.6 billion mainly due to the deficit expected this year

Taxpayer-supported debt will total $28.2 billion or 21.7 per cent of GDP by the end of 2001/02. This is $2.6 billion higher than the March 15 Budget forecast reflecting additional borrowing to finance the currently forecast summary accounts deficit and the reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) debt from the self-supported category to taxpayer-supported. The increase is partially offset by lower balances for education and health facilities (due to the reclassification of certain capital expenditures as operating costs) and highways, ferries and public transit (due to lower-than-expected year-end balances at March 31, 2001).

Self-supported debt is $0.6 billion lower

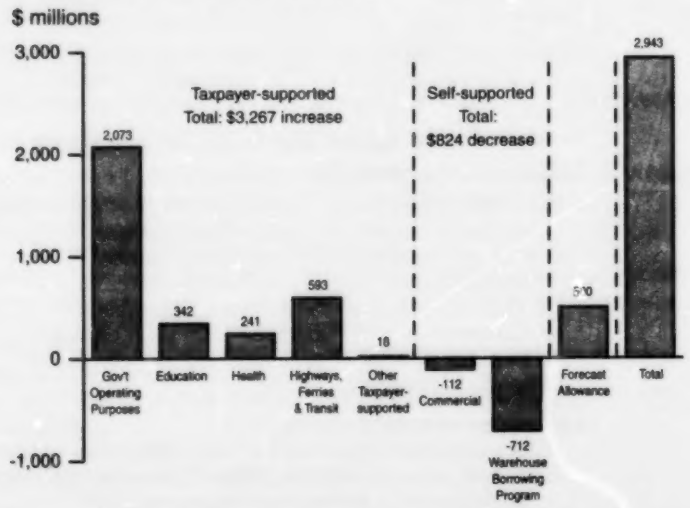
Self-supported debt will total $8.1 billion, $638 million lower than the March budget due to a lower debt forecast for BC Hydro and the reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) debt as taxpayer-supported.

The debt forecast includes $500 million to reflect the summary accounts forecast allowance

The debt forecast includes a $500-million forecast allowance provision. This is $200 million higher than the March 15 Budget, consistent with the increase in the summary accounts forecast allowance.

Although the July 30 Update does not present a three-year outlook, the recent review by the Fiscal Review Panel suggests that, based on preliminary fiscal forecasts for the next few years, it is likely that operating deficits will continue in the near term, requiring additional borrowing and an increase in government's operating debt.

Chart 2.4 Change in Total Provincial Debt



Reflects new borrowing of $5.7 billion and a $0.7 billion drawdown of warehouse debt

Chart 2.4 shows the expected change in total provincial debt in 2001/02. In total, provincial debt will increase $2.9 billion by year-end to finance working capital requirements and numerous capital projects of the government and its Crown corporations and agencies. Taxpayer-supported debt will increase $3.3 billion, commercial Crown corporation and agency debt will decrease $112 million and a borrowing allowance of $500 million is established to provide for unexpected developments in the government's overall borrowing needs. These requirements will be met through new borrowing of $5.7 billion ($5.2 billion if the forecast allowance is not required) and a $712-million drawdown of previously borrowed funds held under the provincial warehouse borrowing program (see Table 2.17).

TABLE 2.17
PROVINCIAL FINANCING

	Debt[1] Outstanding at March 31, 2001	2001/02 Transactions: New Borrowing[2]	2001/02 Transactions: Retirement Provision[3]	2001/02 Transactions: Net Change	Debt[1] Outstanding at March 31, 2002: July 30 Update	Debt[1] Outstanding at March 31, 2002: March 15 Budget	Change[4]
	($ millions)						
Taxpayer-supported debt							
Provincial government direct operating	12,069	3,688	1,615	2,073	14,142	11,736	2,406
Education facilities	5,263	562	220	342	5,605	5,682	(77)
Health facilities	1,780	277	36	241	2,021	2,074	(53)
Highways, ferries and public transit	4,191	827	234	593	4,784	4,863	(79)
Other debt[5]	1,650	117	99	18	1,668	1,315	353[6]
Total taxpayer-supported debt	**24,953**	**5,471**	**2,204**	**3,267**	**28,220**	**25,670**	**2,550**
Self-supported debt							
Commercial Crown corporations and agencies	7,570	422	534	(112)	7,458	8,096	(638)[6]
Warehouse borrowing program	1,312	(712)	—	(712)	600	600	—
Total self-supported debt	**8,882**	**(290)**	**534**	**(824)**	**8,058**	**8,696**	**(638)**
Forecast Allowance	**—**	**500**	**—**	**500**	**800**	**300**	**200**
Total Provincial Debt	**33,835**	**5,681**	**2,738**	**2,943**	**36,778**	**34,666**	**2,112**

[1] Debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable. Figures for earlier years have been restated to conform with the presentation used for fiscal 2001/02.
[2] New long-term borrowing plus net change in short-term debt.
[3] Sinking fund contributions, sinking fund earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).
[4] July 30 Update less March 15 Budget.
[5] Includes government services Crown corporations and agencies, 552513 British Columbia Ltd. (Skeena Cellulose Inc.), other fiscal agency loans, student assistance loans, loan guarantees to agricultural producers and guarantees issued under economic development assistance programs and the former British Columbia home mortgage assistance and second mortgage programs. Also includes loan guarantee provisions.
[6] Based on a revised outlook for world pulp prices and its potential impact on the finances of 552513 British Columbia Ltd. (Skeena Cellulose Inc.), the company's debt has been reclassified from self-supported to taxpayer-supported in 2000/01. As the province is not the sole shareholder of Skeena Cellulose Inc., a portion of this debt may be attributable to the minority shareholder.

Funding will be used to help finance the $1.5 billion deficit, capital spending of $2.9 billion and to refinance $2.7 billion of maturing debt

Borrowed funds will be used to finance the $1.5-billion deficit and maturing debt of $2.7 billion, and to partially finance capital expenditures of $2.9 billion and operating and working capital requirements of the consolidated revenue fund and Crown corporations and agencies. Some financial requirements (for example, certain commercial Crown corporation projects and portions of taxpayer-supported infrastructure projects) will be financed through internal sources such as net income of the British Columbia Hydro and Power Authority, and surplus cash balances at the end of 2000/01.

Further information on provincial financing activities is provided in the topic box in this report. Details on the debt outstanding for the government, Crown corporations and agencies are provided in Supplementary Table 7.

TABLE 2.17
PROVINCIAL FINANCING

	Debt[1] Outstanding at March 31, 2001	2001/02 Transactions			Debt[1] Outstanding at March 31, 2002		
		New Borrowing[2]	Retirement Provision[3]	Net Change	July 30 Update	March 15 Budget	Change[4]
	($ millions)						
Taxpayer-supported debt							
Provincial government direct operating	12,069	3,688	1,615	2,073	**14,142**	11,736	2,406
Education facilities	5,263	562	220	342	**5,605**	5,682	(77)
Health facilities	1,780	277	36	241	**2,021**	2,074	(53)
Highways, ferries and public transit	4,191	827	234	593	**4,784**	4,863	(79)
Other debt[5]	1,650	117	99	18	**1,668**	1,315	353[6]
Total taxpayer-supported debt	**24,953**	**5,471**	**2,204**	**3,267**	**28,220**	**25,670**	**2,550**
Self-supported debt							
Commercial Crown corporations and agencies	7,570	422	534	(112)	**7,458**	8,096	(638)[6]
Warehouse borrowing program	1,312	(712)	—	(712)	**600**	600	—
Total self-supported debt	**8,882**	**(290)**	**534**	**(824)**	**8,058**	**8,696**	**(638)**
Forecast Allowance	**—**	**500**	**—**	**500**	**500**	**300**	**200**
Total Provincial Debt	**33,835**	**5,681**	**2,738**	**2,943**	**36,778**	**34,666**	**2,112**

[1] Debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable. Figures for earlier years have been restated to conform with the presentation used for fiscal 2001/02.
[2] New long-term borrowing plus net change in short-term debt.
[3] Sinking fund contributions, sinking fund earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).
[4] July 30 Update less March 15 Budget.
[5] Includes government services Crown corporations and agencies, 552513 British Columbia Ltd. (Skeena Cellulose Inc.), other fiscal agency loans, student assistance loans, loan guarantees to agricultural producers and guarantees issued under economic development assistance programs and the former British Columbia home mortgage assistance and second mortgage programs. Also includes loan guarantee provisions.
[6] Based on a revised outlook for world pulp prices and its potential impact on the finances of 552513 British Columbia Ltd. (Skeena Cellulose Inc.), the company's debt has been reclassified from self-supported to taxpayer-supported in 2000/01. As the province is not the sole shareholder of Skeena Cellulose Inc., a portion of this debt may be attributable to the minority shareholder.

Funding will be used to help finance the $1.5 billion deficit, capital spending of $2.9 billion and to refinance $2.7 billion of maturing debt

Borrowed funds will be used to finance the $1.5-billion deficit and maturing debt of $2.7 billion, and to partially finance capital expenditures of $2.9 billion and operating and working capital requirements of the consolidated revenue fund and Crown corporations and agencies. Some financial requirements (for example, certain commercial Crown corporation projects and portions of taxpayer-supported infrastructure projects) will be financed through internal sources such as net income of the British Columbia Hydro and Power Authority, and surplus cash balances at the end of 2000/01.

Further information on provincial financing activities is provided in the topic box in this report. Details on the debt outstanding for the government, Crown corporations and agencies are provided in Supplementary Table 7.

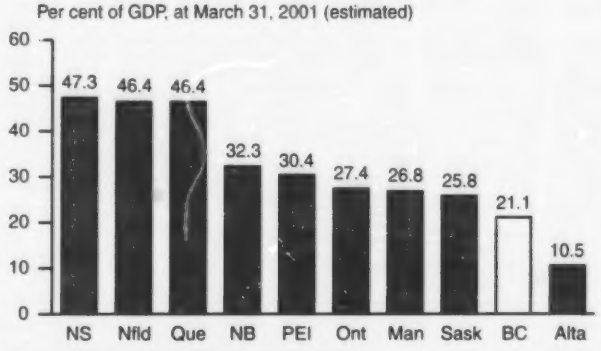
PROVINCIAL FINANCING

The provincial government and its Crown corporations and agencies borrow funds to finance operations and capital projects. Borrowing for operations is required when revenues fall short of expenditures and to meet other cash requirements such as loans and investments. Borrowing for capital projects finances the building of schools, hospitals, roads and other infrastructure. These investments provide essential services to benefit current and future generations of British Columbians.

The province's debt is reported using two basic classifications — taxpayer-supported debt and self-supported debt. Taxpayer-supported debt includes the direct debt of government and the debt of Crown corporations and agencies that require an operating or debt service subsidy from the provincial government. Self-supported debt includes the debt of commercial Crown corporations and agencies, which fully fund their operations and debt from revenue generated through the sale of services at commercial rates, and debt of the warehouse borrowing program.

Taxpayer-supported debt is a measure often used by investors and credit rating agencies when assessing a province's investment quality. The ratio of a province's taxpayer-supported debt relative to its current dollar gross domestic product (GDP) highlights the ability of a province to manage its debt load. British Columbia's taxpayer-supported debt ratio is one of the lowest in Canada, and this translates into a strong credit rating and relatively low debt servicing costs. Chart 1 shows that, according to the Moody's Investors Service, British Columbia had the second lowest taxpayer-supported debt-to-GDP ratio of all provinces at the end of 2000/01.

Chart 1
Interprovincial Comparison of Taxpayer-Supported Debt



Source: Moody's Investor Service estimates, May 2001

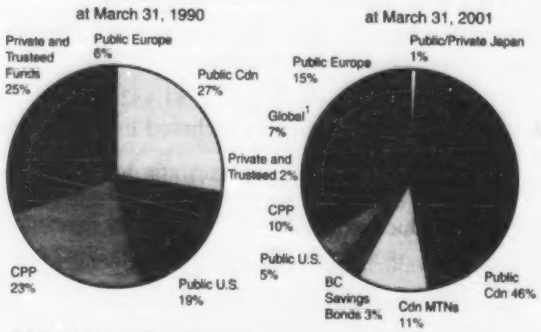
Borrowing Process

Almost all Crown corporation and agency borrowing is done through the fiscal agency borrowing program. Under this program, the provincial government borrows directly in financial markets and re-lends the funds to Crown corporations and agencies. Borrowing and financing costs remain the responsibility of the Crown corporation or agency. The primary advantage of the fiscal agency program is that it provides lower-cost financing to Crown corporations due to the province's strong credit rating and its ability to borrow at lower interest rates.

Borrowing Sources

Provincial borrowing has come from a variety of sources, including public financial markets in Canada, the United States, Europe and Asia; the Canada Pension Plan Investment Fund; private institutional lenders; and provincial trusteed funds. Chart 2 shows that over the last 11 years, borrowing sources have shifted from private placements, such as the provincial trusteed funds and Canada Pension Plan, towards public markets, particularly in Canada (e.g. BC Savings Bonds and Canadian medium-term notes) and Europe.

Chart 2
Gross Debt Outstanding by Source



[1] A global debt security is offered simultaneously to investors in Canada, the U.S., Europe and Asia.

Effective in 2001/02, the BC Savings Bonds program has been discontinued as it is more economical to borrow in other public markets.

Diversification of borrowing sources is a key factor in lowering financing costs and maintaining investor demand for British Columbia bonds and notes. A broad investor base is important given increased competition for funding.

2000/01 Financing

The province raised all of its $2.8 billion financial requirements from domestic markets, including $249 million in BC Savings Bonds and $149 million from the Canada Pension Plan (see Chart 3).

2001/02 Financing

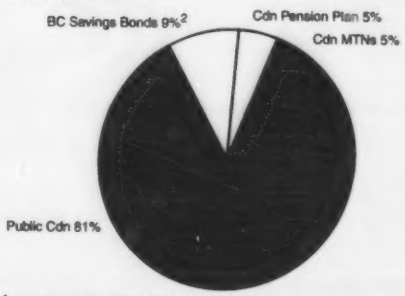
In 2001/02, net new financing requirements for the provincial government and its Crown corporations and agencies are estimated at $5.2 billion ($5.7 billion including the forecast allowance). Gross requirements totalling $5.9 billion for the government and Crown corporations and agencies will be partially offset by a $712-million drawdown from funds previously borrowed through the warehouse borrowing program.

Borrowed funds will be used to refinance maturing debt and to partially finance capital and currently-forecast operating requirements of the government and its Crown corporations and agencies. The remainder of capital and operating requirements will be financed through internal sources of funds, such as surplus earnings of commercial Crown corporations, and surplus cash balances and borrowings at the end of 2000/01.

The 2001/02 financing requirements will be met through new borrowing in the domestic and international markets. The province's strategy will be to borrow in a variety of markets, in both fixed and floating rate form.

Chart 3
2000/01 Borrowing Activity

Total: $2.8 billion[1]



[1] Excludes drawdown of funds from the warehouse borrowing program.
[2] Discontinued in 2001/02.

Summary Accounts Balance Sheet

Table 2.18 summarizes the forecast changes in the province's financial position during 2001/02. The table shows that:

- the $1,500 million summary accounts deficit;
- an $802-million increase in net investments in taxpayer-supported capital assets and in commercial Crown corporations; and
- working capital requirements totalling $1,432 million (primarily due to the one-time non-cash joint trusteeship benefit included in the summary accounts deficit forecast);

will be financed by:

- a $79-million reduction in cash and temporary investments;
- a $712-million reduction in warehouse borrowing investments; and
- a $2,943-million increase in provincial debt.

Further details are shown in Table 2.19

TABLE 2.18
FORECAST CHANGE IN SUMMARY ACCOUNTS FINANCIAL POSITION
For the Year Ended March 31, 2002

	Change	
	($ millions)	
Summary accounts deficit		**1,500**
Reduction in cash and temporary investments		(79)
Changes in capital investments:		
Increase in assets related to taxpayer-supported capital investments (net of amortization)	830[1]	
Decrease in net investments in, and loans to, commercial Crown corporations for asset purchases	(28)[1]	802
Non-cash and other working capital changes:		
— Reduction in unfunded pension liability (non-cash)	1,338	
— Other working capital changes and adjustments	94	1,432
Net debt increase for government and its Crown corporations and agencies		3,655
Decrease in warehouse borrowing investments		(712)
Increase in provincial debt		**2,943**

[1] Reflects effect of $2.9 billion in total capital spending (see Table 2.13) as follows:

	$ billions
Taxpayer-supported capital increase	1.88
Less: depreciation and other accounting changes	(1.05)
Net increase in capital investments	0.83
Commercial Crown corporation capital increase	1.02
Less: amounts financed internally	(1.05)
Net decrease of investments in commercial Crown corporations (including recoverable loans for asset purchases)	(0.03)

TABLE 2.19
SUMMARY ACCOUNTS BALANCE SHEET

	Actual March 31, 2001	[illegible]	Increase/ (Decrease)
Assets			
Cash and temporary investments	554	[illegible]	(79)
Other working capital assets[1]	4,923	[illegible]	(14)
Capital assets and investments (net of amortization)			
— Net investments in self-supported Crown corporations and agencies	*3,001*	[illegible]	*66*
— Loans for purchases of assets recoverable from agencies[2]	*7,437*	[illegible]	*(94)*
— Prepaid capital advances	*6,905*	[illegible]	*301*
— Tangible capital assets	*11,105*	[illegible]	*529*
	28,448	[illegible]	802
Warehouse borrowing program assets	1,312	[illegible]	(712)
	35,237	[illegible]	**(3)**
Liabilities			
Current liabilities[1, 3]	3,874	[illegible]	(164)
Unfunded pension liabilities	1,477	[illegible]	(1,338)
Debt			
— Taxpayer-supported debt	*24,953*	[illegible]	*3,267*
— Commercial Crown corporations and agencies	*7,570*	[illegible]	*(112)*
— Warehouse borrowing program	*1,312*	[illegible]	*(712)*
— Forecast allowance	—	[illegible]	*500*
	33,835	[illegible]	*2,943*
Less: guarantees and non-guaranteed debt[4]	*(597)*	[illegible]	*56*
	33,238	[illegible]	2,999
	38,589	[illegible]	**1,497**
Net equity (deficiency)[5]	(3,352)[5]	[illegible]	(1,500)
	35,237	[illegible]	**(3)**

[1] Accounts receivable, loans, inventories and other assets/investments. On page 5 of the *Estimates*, current liabilities have been deducted from working capital assets.
[2] Includes loans to commercial Crown corporations for the purchase of capital assets.
[3] Accounts payable, accrued liabilities and deferred revenue.
[4] Third party guarantees, and provincial guarantees and non-guaranteed debt of commercial Crown corporations and agencies.
[5] Accumulated deficits of the government and Crown corporations and agencies plus accounting adjustments resulting from changes in accounting policy. Includes the effect of a prior-period adjustment of $120 million to reflect the extension of the government's capitalization accounting policy to land improvements in 2001/02.

Staff Utilization

The government and its taxpayer-supported Crown corporations and agencies are projected to have a total staff utilization of approximately 44,100 full-time equivalents (FTEs) in the 2001/02 fiscal year. This includes 34,844 FTEs for ministries and special offices and 9,344 FTEs for taxpayer-supported Crown corporations and agencies. Since the March 15 Budget, there has been an increase of 70 FTEs for ministries and special offices and a decrease of 368 FTEs for Crown corporations and agencies. The decline in Crown corporations primarily reflects the removal of Highway Constructors Ltd. (HCL) employees from the utilization count, partially offset by the addition of Canadian Blood Services employees and various utilization increases in other Crown corporations. HCL employees have been removed from the FTE count because their costs are not paid directly through salaries, but are instead recovered from private-sector contractors.

TABLE 2.19
SUMMARY ACCOUNTS BALANCE SHEET

	Actual March 31, 2001	July 30 Update March 31, 2002	Increase/ (Decrease)
	($ millions)		
Assets			
Cash and temporary investments	554	475	(79)
Other working capital assets[1]	4,923	4,909	(14)
Capital assets and investments (net of amortization)			
— Net investments in self-supported Crown corporations and agencies	*3,001*	*3,067*	*66*
— Loans for purchases of assets recoverable from agencies[2]	*7,437*	*7,343*	*(94)*
— Prepaid capital advances	*6,905*	*7,206*	*301*
— Tangible capital assets	*11,105*	*11,634*	*529*
	28,448	29,250	802
Warehouse borrowing program assets	1,312	600	(712)
	35,237	**35,234**	**(3)**
Liabilities			
Current liabilities[1, 3]	3,874	3,710	(164)
Unfunded pension liabilities	1,477	139	(1,338)
Debt			
— Taxpayer-supported debt	*24,953*	*28,220*	*3,267*
— Commercial Crown corporations and agencies	*7,570*	*7,458*	*(112)*
— Warehouse borrowing program	*1,312*	*600*	*(712)*
— Forecast allowance	—	*500*	*500*
	33,835	*36,778*	*2,943*
Less: guarantees and non-guaranteed debt[4]	*(597)*	*(541)*	*56*
	33,238	36,237	2,999
	38,589	**40,086**	**1,497**
Net equity (deficiency)[5]	(3,352)[5]	(4,852)	(1,500)
	35,237	**35,234**	**(3)**

[1] Accounts receivable, loans, inventories and other assets/investments. On page 5 of the *Estimates*, current liabilities have been deducted from working capital assets.
[2] Includes loans to commercial Crown corporations for the purchase of capital assets.
[3] Accounts payable, accrued liabilities and deferred revenue.
[4] Third party guarantees, and provincial guarantees and non-guaranteed debt of commercial Crown corporations and agencies.
[5] Accumulated deficits of the government and Crown corporations and agencies plus accounting adjustments resulting from changes in accounting policy. Includes the effect of a prior-period adjustment of $120 million to reflect the extension of the government's capitalization accounting policy to land improvements in 2001/02.

Staff Utilization

The government and its taxpayer-supported Crown corporations and agencies are projected to have a total staff utilization of approximately 44,100 full-time equivalents (FTEs) in the 2001/02 fiscal year. This includes 34,841 FTEs for ministries and special offices and 9,341 FTEs for taxpayer-supported Crown corporations and agencies. Since the March 15 Budget, there has been an increase of 70 FTEs for ministries and special offices and a decrease of 368 FTEs for Crown corporations and agencies. The decline in Crown corporations primarily reflects the removal of Highway Constructors Ltd. (HCL) employees from the utilization count, partially offset by the addition of Canadian Blood Services employees and various utilization increases in other Crown corporations. HCL employees have been removed from the FTE count because their costs are not paid directly through salaries, but are instead recovered from private-sector contractors.

Utilization in ministries and special offices is projected to be 1,575 FTEs higher than in 2000/01. The increase is due to planned under-utilization, reduced requirements for fighting forest fires and hiring recruitment lags in 2000/01, and additional resources that were provided in the March 15 Budget for new initiatives and service delivery pressures in children and families services, including before-and-after school child-care and justice programs in 2001/02. Taxpayer-supported Crown corporations and agencies show a 108-FTE increase from last year due to minor increases in the activity of several Crown corporations and agencies. Further details on staff utilization projections are available in Schedule G of the *Estimates*.

TABLE 2.20
SUMMARY ACCOUNTS STAFF UTILIZATION[1]

	2000/01 Actual	2001/02 March 15 Budget	2001/02 **July 30 Update**
		(S thousands)	
Consolidated revenue fund (i.e. ministries and special offices)	33.3	34.8	**34.8**
Taxpayer-supported Crown corporations and agencies[2]	9.2	9.7	**9.3**
Total staff utilization	42.5	44.5	**44.1**

[1] Staff utilization is measured in full-time equivalents (FTEs). FTEs are calculated by dividing the total hours of employment paid for in a given period by the number of hours a single, full-time person would normally work in that period. This is not equal to the physical number of employees as, for example, two half-time employees would equal one FTE.
[2] Includes 231 FTEs (75 FTEs in 2000/01) in the Ministry of Forests and 67 FTEs (35 FTEs in 2000/01) in the Ministry of Water, Land and Air Protection that work on behalf of, and are funded by, Forest Renewal BC, and 12 FTES in the Ministry of Finance that are funded by the BC Assets and Land Corporation. Does not include 1,689 FTEs (2,251 FTEs in 2000/01) for Highway Constructors Ltd. that are not paid directly through salaries (these costs are fully recovered from private-sector contractors).

Utilization in ministries and special offices is projected to be 1,575 FTE's higher than in 2000/01. The increase is due to planned under-utilization, reduced requirements for fighting forest fires and hiring recruitment lags in 2000/01, and additional resources that were provided in the March 15 Budget for new initiatives and service delivery pressures in children and families services, including before-and-after school child-care and justice programs in 2001/02. Taxpayer-supported Crown corporations and agencies show a 108-FTE increase from last year due to minor increases in the activity of several Crown corporations and agencies. Further details on staff utilization projections are available in Schedule G of the *Estimates*.

TABLE 2.20
SUMMARY ACCOUNTS STAFF UTILIZATION[1]

	2000/01 Actual	March 15 Budget	200
		($ thousands)	
Consolidated revenue fund (i.e. ministries and special offices)	33.3	34.8	
Taxpayer-supported Crown corporations and agencies[2]	9.2	9.7	
Total staff utilization	42.5	44.5	

[1] Staff utilization is measured in full-time equivalents (FTEs). FTEs are calculated by dividing the total hours of employment paid for in a given period by the number of hours a single, full-time person would normally work in that period. This is not equal to the physical number of employees as, for example, two half-time employees would equal one FTE.

[2] Includes 231 FTEs (75 FTEs in 2000/01) in the Ministry of Forests and 67 FTEs (35 FTEs in 2000/01) in the Ministry of Water, Land and Air Protection that work on behalf of, and are funded by, Forest Renewal BC, and 12 FTES in the Ministry of Finance that are funded by the BC Assets and Land Corporation. Does not include 1,689 FTEs (2,251 FTEs in 2000/01) for Highway Constructors Ltd. that are not paid directly through salaries (these costs are fully recovered from private-sector contractors).

Tax Reductions to Stimulate Economic Growth and Job Creation

British Columbia's economy has under-performed for most of the last decade. Investment has foundered and consumer confidence has been low. As a result, economic growth has not kept pace with the rest of Canada and real incomes per capita have fallen.

The government is committed to reversing this trend and to restoring British Columbia's economic vitality. A key to achieving this goal is to foster productivity growth. Only through renewed and long-term productivity gains can British Columbians be assured of higher incomes and a better standard of living. Boosting productivity will require action on many fronts, including improving our education system to ensure people have the skills they need to succeed and reducing the regulatory burden. But a fundamental element of raising British Columbia's productivity is a tax system that is competitive and that encourages investment and innovation.

Personal Income Tax Cuts

On June 6, 2001, the government announced a 25 per cent reduction in the personal income tax. The cut will leave an additional $1.1 billion in taxpayers' pockets this year and $1.5 billion next year. This is an important first step in increasing disposable incomes and improving consumer confidence. In addition, as part of the cut, British Columbia's top marginal rate will be reduced to the second lowest in Canada. This will encourage more highly skilled knowledge workers and entrepreneurs to work and invest in the province.

Vehicle Surtax Threshold Raised

The last time the vehicle surtax threshold was raised was in 1994. Since then there has been a substantial rise in new vehicle prices. This has placed an unfair burden on those British Columbians, including people with disabilities, who rely on large vehicles to travel safely and do their jobs. Effective July 31, 2001, the threshold at which the surtax starts to apply will be raised to $47,000 from the current level of $32,000. The increase in the threshold will save taxpayers $27 million in 2001/02 and will ensure that British Columbians are better able to afford cars and trucks for their business or personal needs.

Business Tax Cuts

In order to make British Columbia truly competitive, the business tax structure also needs to be re-examined. The Update includes four tax cuts to encourage investment in the province, plus several other cuts designed to improve the province's competitiveness as a transportation gateway to North America.

Provincial Sales Tax on Production Machinery and Equipment

For many years British Columbia was the only province to apply its sales tax to production machinery and equipment without providing some relief through an offsetting investment tax credit. In a world where there is competition for every investment dollar, this has been a significant deterrent to economic growth and productivity gains. A small investment tax credit was introduced in 2000 but discussions with the business community have confirmed that it was insufficient to generate significant new investment.

Effective July 31, 2001, production machinery and equipment purchased by eligible manufacturers will be exempt from provincial sales tax. The exemption will also apply to logging and mining, as well as petroleum and natural gas exploration, development and extraction. The exemption will replace the three per cent investment tax credit.

The exemption will reduce costs for business by a net amount of $87 million in 2001/02 and should spur investment throughout the economy. It will help the manufacturing, logging and mining industries with the investments they need to remain competitive, and will also assist the high-tech manufacturing and software development sectors which are rapidly becoming a core part of the provincial economy.

General Corporation Capital Tax Phase-out

Canada is one of the few countries in the developed world which relies on capital taxes. Several studies over the past few years have recommended that the federal and provincial governments should work to eliminate these taxes because they discourage investment. In British Columbia, the capital tax has been a serious deterrent to overseas investment, particularly from Pacific Rim countries. The general corporation capital tax will be phased out over two years. The rate will be reduced from 0.3 per cent to 0.15 per cent on September 1, 2001 and the tax will be eliminated on September 1, 2002. This will remove an investment impediment of $101 million in 2001/02.

Competitive Corporate Income Tax

British Columbia's general corporate income tax rate is among the highest in Canada and is driving businesses to locate in other jurisdictions. As a further step in securing a competitive tax system, the general corporate income tax rate will be reduced to 13.5 per cent from 16.5 per cent effective January 1, 2002. This will bring British Columbia's rate in line with those in Alberta and Ontario, and the province will strive to keep the rate competitive in the future.

Encouraging Mineral Exploration

Increased exploration is a key to renewing the mining industry in the province. To provide an additional incentive for exploration, British Columbia will introduce a new 20 per cent flow-through share tax credit modelled after a similar federal credit introduced in October 2000. The existing mining exploration tax credit will remain for companies and individuals that do not use flow-through shares to finance their exploration activities.

Enhancing British Columbia as a Transportation Gateway

To support British Columbia's gateway strategy, the domestic jet fuel tax rate will be reduced to 2 cents per litre from 5 cents per litre effective August 1, 2001. This will bring our domestic rate in line with the rate charged on international flights and with the rates charged by our competitors. The reduction will help the Vancouver International Airport and will also assist regional airports by reducing the costs of flights within the province. In addition, the aviation fuel tax will be reduced to 2 cents per litre from its current level of 3 cents per litre.

British Columbia is one of very few jurisdictions which impose a tax on bunker fuel which is used to run large ships. Effective August 1, 2001, the tax on bunker fuel will be eliminated. Eliminating the tax will open up opportunities to supply more bunker fuel to ships visiting British Columbia ports and will remove a competitive disadvantage we face in attracting cruise ship business. This will assist the tourism sector, as well as help Vancouver and Prince Rupert attract new shipping opportunities in a very competitive international market.

Other Tax Reductions

The government will also provide additional encouragement for people to purchase alternative fueled vehicles by doubling the maximum sales tax rebate available for these vehicles and by exempting PuriNOx™ from the fuel tax. PuriNOx™ is a diesel/water emulsion that significantly reduces emissions of particulates from diesel engines.

To ensure that the provincial sales tax does not discourage tourism, the government will not proceed with amendments affecting boats and recreational vehicles owned by non-residents. These amendments were passed, but not proclaimed in the 2000 legislative session. Instead, the government will undertake consultations to develop an approach that is fair and that will enhance British Columbia's reputation as a tourism destination.

Summary

In total, these cuts will provide a benefit of $1,378 million to British Columbia taxpayers in the current fiscal year, of which $1,157 million will go to individuals and $221 million to businesses.

In combination with progress on other fronts, such as reducing red tape and unnecessary regulation, the tax cuts should contribute to an improved investment climate, renewed productivity growth, and ultimately more jobs and higher incomes for British Columbians.

SUMMARY OF REVENUE MEASURES

	Effective Date	Taxpayer Impacts 2001/02	2002/03
		($ millions)	
Income Tax Act			
• Personal income tax rates reduced for 2001 and further reduced for 2002 and subsequent years	January 1, 2001	1,150	1,505
• Dividend tax credit rate reduced from 6.6 per cent to 5.9 per cent for 2001 and to 5.1 per cent for 2002	January 1, 2001	(20)	(40)
• General corporate income tax rate reduced to 13.5 per cent from 16.5 per cent	January 1, 2002	16	200
• Mining flow-through share tax credit introduced	July 31, 2001	*	*
• Manufacturing and processing tax credit repealed	July 31, 2001	(20)	(30)
Corporation Capital Tax Act			
• The corporation capital tax rate applied to non-financial corporations is reduced from 0.3 per cent to 0.15 per cent effective September 1, 2001 and the tax is eliminated for non-financial corporations effective September 1, 2002	September 1, 2001	101	273
Social Service Tax Act			
• Tax exemption provided for production machinery and equipment purchased by eligible manufacturers and producers	July 31, 2001	107	160
• Vehicle surtax threshold for passenger vehicles increased	July 31, 2001	27	40
• Maximum rebate for alternative fuel vehicles raised	July 31, 2001	*	*
• Amendments to taxation of boats and recreational vehicles cancelled	N/A	*	*
Motor Fuel Tax Act			
• Tax exemption provided for marine bunker fuel	August 1, 2001	7	10
• Domestic jet fuel and aviation fuel tax rates reduced to 2 cents per litre	August 1, 2001	10	15
• Tax exemption provided for PuriNOx™ motor fuel	August 1, 2001	*	*
Total		**1,378**	**2,133**

* denotes measures with minimal total impacts.

Revenue Measures: Supplementary Information

INCOME TAX ACT

PERSONAL INCOME TAX RATES

As announced, personal income taxes cut 25%

On June 6, 2001, the government announced provincial personal income tax rate reductions starting in the 2001 tax year. The tax cut will reduce provincial personal income tax by about 25 per cent for most taxpayers and by 28 per cent for those earning less than $30,000. The direct benefit to taxpayers will be approximately $1.15 billion in 2001/02 and $1.5 billion in 2002/03. Earlier estimates which suggested a benefit to taxpayers of $1.35 billion in 2001/02 were incorrect due to a technical calculation error. The 2002/03 impact of $1.5 billion remains correct, however.

Table 3.1 shows British Columbia's personal income tax brackets and rates before and after the changes for 2001 and for 2002 and subsequent tax years.

TABLE 3.1
BRITISH COLUMBIA PERSONAL INCOME TAX BRACKETS AND RATES

		Tax rates		
		Prior to changes	After changes	
Tax bracket	Taxable income range*	2001	2001	2002
1	$1 to $30,484	8.4%	7.3%	6.05%
2	$30,484.01 to $60,969	11.9%	10.5%	9.15%
3	$60,969.01 to $70,000	16.7%	13.7%	11.7%
4	$70,000.01 to $85,000	18.7%	15.7%	13.7%
5	Over $85,000	19.7%	16.7%	14.7%

* Brackets are indexed to provincial inflation.

Table 3.2 shows some examples of the tax cut for a single taxpayer claiming basic credits and typical deductions.

TABLE 3.2
BRITISH COLUMBIA TAX CUT — IMPACT ON TAXPAYERS

		Reduction in tax		
Gross Earnings	2001 BC tax before tax cuts	2001	2002	Percentage reduction when fully implemented
$20,000	$843	$110	$236	28.0%
$30,000	$1,536	$201	$430	28.0%
$40,000	$2,429	$308	$644	26.5%
$50,000	$3,559	$441	$904	25.4%
$60,000	$4,642	$568	$1,155	24.9%
$70,000	$5,890	$751	$1,483	25.2%
$80,000	$7,517	$1,030	$1,947	25.9%
$100,000	$10,990	$1,577	$2,859	26.0%
$120,000	$14,835	$2,162	$3,834	25.8%
$150,000	$20,604	$3,041	$5,299	25.7%
$200,000	$30,453	$4,540	$7,797	25.6%

In 2000, the personal income tax top marginal tax rate in British Columbia was 51.3 per cent. In 2002, when the tax cut is fully implemented, the top marginal tax rate in British Columbia will be the second lowest in Canada at 43.7 per cent (see Table 3.3). (See website www.rev.gov.bc.ca/itb for more information.)

TABLE 3.3
PERSONAL INCOME TAX TOP MARGINAL TAX RATES FOR 2000, 2001 AND 2002

Tax year	Province									
	BC	Alta	Sask	Man	Ont	Que	NB	NS	PEI	Nfld
2000	51.3	43.7	49.7	48.1	47.9	50.7	48.8	48.8	48.8	51.3
2001	45.7	39.0	45.0	46.4	46.4	48.7	46.8	47.3	47.4	48.6
2002	43.7	39.0	44.5	46.4	46.4	48.2	46.8	47.3	47.4	48.6

DIVIDEND TAX CREDIT RATE

Dividend tax credit rate lowered to mirror personal income tax cuts

As a consequence of the personal income tax rate reductions, the dividend tax credit rate will be changed for 2001 and 2002. For 2001, the British Columbia dividend tax credit rate is reduced from 6.6 per cent to 5.9 per cent and for 2002 the tax credit rate is reduced to 5.1 per cent. Without these changes, the effective tax rate reduction for dividend income would have been much greater than for other forms of income. These changes ensure that the reduction for dividends will be more in line with the rate cuts for wage income.

In addition to the tax rate changes, several consequential amendments to the *Income Tax Act* are required. These consequential amendments are related to the carryforward of unused provincial tuition and education credits and the annual limit of tuition and education credits that can be transferred to a parent or grandparent. (See website www.rev.gov.bc.ca/itb for more information.)

GENERAL CORPORATE INCOME TAX RATE

General corporate income tax rate cut 3 points

The general corporate income tax rate will be reduced to 13.5 per cent from 16.5 per cent effective January 1, 2002 and the government will strive to keep the rate competitive in the future. The general corporate income tax rate applies to investment income, income of public and non-Canadian-controlled private corporations, income of Canadian-controlled private corporations with paid up capital in excess of $10 million, and active business income of Canadian-controlled private corporations in excess of $200,000. (See website www.rev.gov.bc.ca/itb for more information.)

MINING FLOW-THROUGH SHARE TAX CREDIT

New flow-through share tax credit introduced

Effective July 31, 2001, individual flow-through share investors are eligible for a 20 per cent tax credit on qualifying mining exploration expenditures passed through (renounced) to them by exploration companies. The credit can be used to reduce British Columbia personal income taxes. This new British Columbia tax credit is modelled on, and will supplement, the 15 per cent federal flow-through share tax credit announced in the October 2000 federal Economic Statement and Budget Update.

The credit is available for eligible exploration expenditures financed by flow-through shares and incurred after July 30, 2001 and before 2004. The existing British Columbia Mining Exploration Tax Credit will continue to be available to companies and individuals conducting qualifying exploration activity in British Columbia that is not financed by flow-through shares.

Flow-through shares are shares issued by resource companies to raise equity capital for exploration work in Canada. By issuing flow-through shares, companies agree to renounce exploration tax deductions to their investors. Once renounced, the expenses are deductible in computing the taxable incomes of the investors instead of the issuing corporations. (See website www.rev.gov.bc.ca/itb for more information.)

MANUFACTURING AND PROCESSING INVESTMENT TAX CREDIT

Current investment tax credit eliminated

The three per cent Manufacturing and Processing Investment Tax Credit, introduced in April 2000, will be eliminated for assets acquired after July 30, 2001. The credit is replaced by a provincial sales tax exemption for production machinery and equipment. (See website www.rev.gov.bc.ca/itb for more information.)

CORPORATION CAPITAL TAX ACT

General corporation capital tax phased out

Corporation capital tax on non-financial corporations will be phased out in two stages.

The tax rate for non-financial corporations will be reduced from 0.3 per cent to 0.15 per cent effective September 1, 2001, and the tax will be eliminated for non-financial corporations effective September 1, 2002. During the phase-out period, corporations will calculate their corporation capital tax liability by applying the appropriate rates in proportion to the number of days in their taxation year before and after the rate changes. (See website www.rev.gov.bc.ca/itb for more information.)

SOCIAL SERVICE TAX ACT

EXEMPTION FOR PRODUCTION MACHINERY AND EQUIPMENT

New sales tax exemption for production machinery and equipment

Effective July 31, 2001, an exemption from the provincial sales tax is introduced for prescribed machinery and equipment purchased or leased by eligible manufacturers or by persons regularly engaged for commercial purposes in logging or the exploration, development and extraction of petroleum, natural gas, minerals and coal.

See Consumer Taxation Branch Bulletin 100 at: www.rev.gov.bc.ca/ctb, call toll free 1 877 388-4440 or call your local Consumer Taxation Branch office (see blue pages of phone book) for a copy of the Bulletin to obtain details on eligibility requirements, prescribed machinery and equipment, and how to obtain the exemption.

The existing 3 per cent investment tax credit is repealed effective July 30, 2001.

VEHICLE SURTAX THRESHOLD FOR PASSENGER VEHICLES

Threshold for vehicle surtax raised to $47,000

The threshold for the vehicle surtax on the purchase, lease or rental of passenger vehicles is increased to $47,000 from $32,000, effective July 31, 2001. As of that date, the tax rates applicable to passenger vehicles are as follows:

- 7 per cent on passenger vehicles valued at less than $47,000;
- 8 per cent on passenger vehicles valued at $47,000 or more, but less than $48,000;
- 9 per cent on passenger vehicles valued at $48,000 or more, but less than $49,000; and
- 10 per cent on passenger vehicles valued at $49,000 or more.

"Passenger vehicles" are motor vehicles designed primarily for the transportation of individuals. The definition excludes trucks and vans larger than three-quarter ton, motorhomes, trailers, buses, ambulances and camperized vans designed primarily for accommodation during travel or recreation.

For all leased or rented vehicles, the tax rate is based on the value of the vehicle on the date the lessor first leases the vehicle to a lessee.

The new vehicle surtax threshold applies to all passenger vehicles purchased after July 30, 2001. For leased vehicles, the new vehicle surtax threshold applies to the first lease payment due after July 30, 2001. (See website www.rev.gov.bc.ca/ctb for more information.)

MAXIMUM REBATE FOR ALTERNATIVE FUEL VEHICLES

Maximum rebate for alternative fuel vehicles raised

Purchasers of eligible new alternative fuel passenger vehicles and new alternative fuel passenger buses may claim a partial rebate of 30 per cent of the social service tax paid up to a maximum amount. Effective July 31, 2001, the maximum rebate for an alternative fuel passenger vehicle is raised to $1,000 from $500 and the maximum rebate for an alternative fuel passenger bus is raised to $10,000 from $5,000. (See website www.rev.gov.bc.ca/ctb for more information.)

Qualifying alternative fuel vehicles include new factory-manufactured motor vehicles, that are designed and licensed to operate on highway:

- exclusively on electricity, ethanol, methanol, natural gas or propane;
- as a hybrid electric vehicle (a vehicle propelled by a combination of electricity and another fuel); and
- as a bi-fuel vehicle (a vehicle with two separate fuel tanks that can be powered by propane or natural gas as well as by gasoline or diesel fuel).

TAXATION OF BOATS AND RECREATIONAL VEHICLES

Amendments related to taxation of boats and RVs cancelled

Legislative amendments related to how provincial sales tax applies to boats and recreational vehicles owned by non-residents were passed, but not proclaimed, in 2000. These amendments will not be proclaimed. Instead, the government will undertake consultations to develop an approach which is fair to all taxpayers and which does not discourage tourism in the province. These consultations will be completed in time for Budget 2002 which will be presented on February 19, 2002.

MOTOR FUEL TAX ACT

MARINE BUNKER FUEL TAX EXEMPTION

Tax on marine bunker fuel eliminated

Effective August 1, 2001, the 7 per cent tax on marine bunker fuel is eliminated. Marine bunker fuel is used in the main engines of large international cargo and cruise ships. (See website www.rev.gov.bc.ca/ctb for more information.)

DOMESTIC JET FUEL AND AVIATION FUEL TAX

Domestic jet fuel and aviation fuel taxes cut

Effective August 1, 2001, the tax rate paid on domestic jet fuel is reduced to 2 cents per litre from 5 cents per litre to match the current tax rate on international jet fuel.

The tax rate paid on aviation gas is also reduced to 2 cents per litre from 3 cents per litre, effective August 1, 2001. (See website www.rev.gov.bc.ca/ctb for more information.)

PuriNOx™ MOTOR FUEL TAX EXEMPTION

Tax exemption for PuriNOx™ motor fuel introduced

Effective August 1, 2001, a tax exemption is provided for PuriNOx™ motor fuel for an initial period of three years.

PuriNOx™ is a cleaner fuel technology which combines approximately 20 per cent water with diesel fuel by means of a special additive and blending process. It is a cleaner direct alternative to conventional diesel fuel that can be used in existing diesel engines without modifications.

During the three year period, the criteria for alternative fuels laid out in the regulations of the *Motor Fuel Tax Act* will be reviewed to ensure they are appropriate for defining new alternative fuels. (See website www.rev.gov.bc.ca/ctb for more information.)

Part 4 SUPPLEMENTARY TABLES

SUPPLEMENTARY TABLE 1 — FIVE-YEAR ECONOMIC FORECAST

1.1 GROSS DOMESTIC PRODUCT — BRITISH COLUMBIA AND CANADA

July 2001

	Actual							
	1998	1999	2000	2001	2002	2003	2004	2005
BRITISH COLUMBIA:								
Gross Domestic Product at Market Prices:								
— Current Dollar ($ million)	113,945	118,783	125,690e	130,190	134,640	141,370	148,010	153,600
(% change)	0.3	4.2	5.8	3.6	3.4	5.0	4.7	3.8
— Real (1992 $ million)	102,217	104,323	108,290e	110,620	114,860	118,700	122,260	125,370
(% change)	0.9	2.1	3.8	2.2	3.8	3.3	3.0	2.5
— GDP Deflator	111.5	113.9	116.1e	117.7	117.2	119.1	121.1	122.5
(% change)	−0.6	2.1	2.0	1.4	−0.4	1.6	1.7	1.2
Real GDP Per Capita (1992 $)	25,567	25,899	26,647e	26,988	27,690	28,155	28,507	28,759
(% change)	0.0	1.3	2.9	1.3	2.6	1.7	1.2	0.9
Real GDP Per Employed Person (% change)	0.9	0.1	1.5e	0.6	0.8	0.1	0.1	0.0
Unit Labour Cost* (% change)	1.1	0.4	2.5e	1.1	0.3	1.5	1.7	1.7
CANADA:								
Gross Domestic Product at Market Prices:								
— Current Dollar ($ million)	901,805	957,911	1,038,794	1,082,580	1,128,510	1,175,240	1,229,870	1,287,030
(% change)	2.7	6.2	8.4	4.2	4.2	4.1	4.6	4.6
— Real (1992 $ million)	842,002	880,254	921,485	939,910	963,410	987,500	1,017,130	1,047,640
(% change)	3.3	4.5	4.7	2.0	2.5	2.5	3.0	3.0
— GDP Deflator Index (1992=100)	107.1	108.8	112.7	115.2	117.1	119.0	120.9	122.9
(% change)	−0.6	1.6	3.6	2.2	1.7	1.6	1.6	1.6
Real GDP Per Capita (1992 $)	27,837	28,867	29,967	30,318	30,822	31,343	32,034	32,747
(% change)	2.4	3.7	3.8	1.2	1.7	1.7	2.2	2.2
Real GDP Per Employed Person (% change)	0.6	1.7	2.0	0.4	0.8	0.5	1.0	1.0

e: estimate

* Unit labour cost is the nominal cost of labour incurred to produce one unit of real output.

SUPPLEMENTARY TABLE 1 — FIVE-YEAR ECONOMIC FORECAST

1.2 COMPONENTS OF BRITISH COLUMBIA REAL GDP AT MARKET PRICES

July 2001

	Actual			Forecast				
	1998	1999	2000e	2001	2002	2003	2004	2005
Personal Expenditure on Goods and Services (1992 $ billion)	67.0	68.7	71.6	73.3	75.4	77.7	79.6	80.8
(% change)	1.3	2.6	4.2	2.4	2.9	3.0	2.4	1.6
— Goods (1992 $ billion)	29.1	29.9	31.4	32.2	33.1	34.2	34.9	35.3
(% change)	1.1	2.7	4.9	2.6	2.9	3.2	2.3	0.9
— Services (1992 $ billion)	37.8	38.8	40.3	41.1	42.3	43.5	44.6	45.6
(% change)	1.4	2.6	3.8	2.2	2.9	2.8	2.5	2.2
Government Current Expenditures on Goods and Services (1992 $ billion)	19.9	20.3	20.6	20.9	21.2	21.7	22.2	22.7
(% change)	1.5	2.0	1.4	1.6	1.7	2.2	2.3	2.2
Investment in Fixed Capital (1992 $ billion)	21.6	23.3	24.0	24.7	26.3	27.8	29.2	30.4
(% change)	−5.4	8.0	2.8	3.3	6.2	6.0	5.0	3.9
Final Domestic Demand* (1992 $ billion)	108.4	112.3	116.1	119.0	123.0	127.2	131.0	133.9
(% change)	−0.1	3.6	3.4	2.4	3.4	3.5	3.0	2.2
Net Exports of Goods and Services (1992 $ billion)	−7.9	−7.8	−7.7	−8.3	−8.3	−8.7	−9.0	−8.6
— Exports of Goods and Services (1992 $ billion)	42.3	45.1	48.0	48.7	50.7	52.7	54.7	56.5
(% change)	4.1	6.7	6.5	1.4	4.2	3.9	3.8	3.4
— Imports of Goods and Services (1992 $ billion)	50.2	52.9	55.7	57.0	59.0	61.4	63.6	65.2
(% change)	2.7	5.4	5.3	2.3	3.5	4.1	3.6	2.4
Inventory Change (1992 $ billion)	1.3	0.2	0.1	0.3	0.5	0.6	0.6	0.5
Statistical Discrepancy (1992 $ billion)	0.4	−0.3	−0.3	−0.3	−0.3	−0.3	−0.3	−0.3
Real GDP at Market Prices (1992 $ billion)**	102.2	104.3	108.3	110.6	114.9	118.7	122.3	125.4
(% change)	0.9	2.1	3.8	2.2	3.8	3.3	3.0	2.5

e: estimate

* Final domestic demand is the sum of personal expenditures, government expenditures and investment in fixed capital.

** Real gross domestic product at market prices is the sum of final domestic demand, net exports, inventory changes and statistical discrepancy.

SUPPLEMENTARY TABLE 1 — FIVE-YEAR ECONOMIC FORECAST

1.3 INCOME AND EXPENDITURE

July 2001

	Actual							
	1998	1999	2000	2001	2002	2003	2004	2005
Average Weekly Wage Rate* ($)	618	625	637	650	661	675	688	702
(% change)	1.3	1.1	1.9	2.0	1.8	2.0	2.0	2.0
Labour Income** ($ million)	61,947	63,454	67,490	69,720	72,580	76,140	79,720	83,150
(% change)	2.1	2.4	6.4	3.3	4.1	4.9	4.7	4.3
Personal Income ($ million)	97,817	100,212	105,520	108,900	113,150	117,900	122,850	127,640
(% change)	2.3	2.4	5.3	3.2	3.9	4.2	4.2	3.9
Corporate Profits Before Taxes ($ million)	7,123	8,808	9,150e	9,610	9,610	10,570	11,630	11,630
(% change)	−10.0	23.7	3.9	5.0	0.0	10.0	10.0	0.0
Retail Sales ($ million)	33,049	33,684	35,821	37,250	38,810	40,630	42,170	43,180
(% change)	−2.0	1.9	6.3	4.0	4.2	4.7	3.8	2.4
Housing Starts	19,931	16,309	14,418	15,600	16,660	21,840	23,280	23,540
(% change)	−32.1	−18.2	−11.6	8.2	6.8	31.1	6.6	1.1
Residential Investment*** ($ million)	7,893	7,473	7,570e	8,120	8,780	9,440	9,920	10,160
(% change)	−11.6	−5.3	1.3	7.2	8.1	7.5	5.1	2.4
Constant Dollar Growth Rates:								
Average Weekly Earnings	1.0	0.0	0.0	0.0	0.2	0.4	0.4	0.4
Labour Income	1.8	1.3	4.4	1.3	2.5	3.2	3.1	2.7
Personal Income	2.0	1.3	3.4	1.2	2.3	2.6	2.6	2.3
Corporate Profits	−10.2	22.3	2.0	2.9	−1.6	8.3	8.3	−1.6
Retail Sales	−2.3	0.8	4.4	2.0	2.6	3.1	2.2	0.8
Residential Investment	−10.3	−6.4	0.2	4.2	5.6	6.4	3.8	1.2
B.C. Consumer Price Index (1992 = 100)	110.0	111.2	113.3	115.5	117.4	119.2	121.2	123.1
(% change)	0.3	1.1	1.9	2.0	1.6	1.6	1.6	1.6

e: estimate

* Includes overtime.

** Domestic basis; wages, salaries and supplementary labour income.

*** Includes renovations and improvements.

SUPPLEMENTARY TABLE 1 — FIVE-YEAR ECONOMIC FORECAST

1.4 LABOUR MARKET INDICATORS

July 2001

	Actual							
	1998	1999	2000	2001	2002	2003	2004	2005
Population (on July 1) (000s)	3,998	4,028	4,064	4,099	4,148	4,216	4,289	4,359
(% change)	1.0	0.8	0.9	0.9	1.2	1.6	1.7	1.6
Labour Force Population, 15+ Years (000s)	3,159	3,193	3,238	3,287	3,343	3,409	3,481	3,551
(% change)	1.5	1.1	1.4	1.5	1.7	2.0	2.1	2.0
Net In-Migration								
— International**	28,687	32,641	32,015	35,500	33,300	34,600	34,900	35,400
— Interprovincial	−17,521	−8,129	−14,123	−8,600	17,400	19,800	21,500	22,200
— Total	11,166	24,512	17,892	26,900	50,700	54,400	56,400	57,600
Participation Rate* (%)	64.9	65.1	64.9	64.9	65.7	66.2	66.5	66.8
Labour Force (000s)	2,051	2,079	2,100	2,132	2,195	2,257	2,316	2,373
(% change)	0.5	1.4	1.0	1.5	3.0	2.8	2.6	2.5
Employment (000s)	1,870	1,906	1,949	1,978	2,038	2,103	2,164	2,218
(% change)	0.1	1.9	2.2	1.5	3.0	3.2	2.9	2.5
Unemployment Rate (%)	8.8	8.3	7.2	7.2	7.2	6.8	6.6	6.5
Real GDP Per Employed Person (% change)	0.9	0.1	1.5e	0.6	0.8	0.1	0.1	0.0

e: estimate
* Percentage of the population 15 years of age and over in the labour force.
** International includes net non-permanent residents and returning emigrants less net temporary abroad.

SUPPLEMENTARY TABLE 1 — FIVE-YEAR ECONOMIC FORECAST

1.5 BRITISH COLUMBIA EMPLOYMENT BY SECTOR

July 2001

Goods Sector Employment (000s)	Actual		F		Service Sector Employment (000s)	Actual		F	
	1999	2000	2001	2002		1999	2000	2001	2002
Forestry & Logging	30	37	30	30	Transportation and Warehousing	118	114	113	118
Other Primary	47	48	45	48	Trade	309	303	307	315
Manufacturing	192	205	210	218	Finance, Insurance & Real Estate	120	120	124	129
— Wood Products	42	47	54	54	Community, Business & Personal Services	873	907	935	966
— Paper & Allied	22	18	15	14	Public Administration	90	90	91	93
— Other Mfg.	128	141	141	150	**Total Service Industries**	1,510	1,534	1,570	1,621
Construction	115	113	112	109	(% change)	3.3	1.6	2.3	3.2
Utilities	12	11	12	13	**Total Employment**	1,906	1,949	1,979	2,039
Total Goods Industries	397	414	409	418	(% change)	1.9	2.2	1.5	3.0
(% change)	−3.0	4.5	−1.3	2.2					

SUPPLEMENTARY TABLE 1 — FIVE-YEAR ECONOMIC FORECAST

1.6 ECONOMIC ASSUMPTIONS

July 2001

	Actual							
	1998	1999	2000	2001	2002	2003	2004	2005
Real GDP (billions)								
Canada (1992 $)	842.0	880.3	921.5	939.9	963.4	987.5	1017.1	1047.6
(% change)	3.3	4.5	4.7	2.0	2.5	2.5	3.0	3.0
U.S.A. (1996 U.S.$; chain-weighted)	8,516	8,876	9,319	9,459	9,695	9,937	10,232	10,534
(% change)	4.4	4.2	5.0	1.5	2.5	2.5	3.0	3.0
Japan (1995 Yen)	518,358	522,278	530,290	527,600	532,900	540,900	549,000	557,200
(% change)	−1.1	0.8	1.5	−0.5	1.0	1.5	1.5	1.5
Germany (1995 DM)	3,674	3,731	3,841	3,914	4,012	4,100	4,190	4,283
(% change)	2.1	1.6	3.0	1.9	2.5	2.2	2.2	2.2
Europe* (% change)	2.8	2.6	3.4	2.5	2.7	2.5	2.5	2.5
Housing Starts (000s)**								
Canada	137	150	152	159	158	160	160	160
(% change)	−6.5	9.1	1.1	4.6	−0.6	1.4	0.0	0.0
U.S.A.	1,617	1,667	1,592	1,605	1,605	1,605	1,605	1,605
(% change)	9.7	3.1	−4.5	0.8	0.0	0.0	0.0	0.0
Japan	1,198	1,215	1,230	1,190	1,190	1,200	1,200	1,200
(% change)	−13.6	1.4	1.3	−3.2	0.0	0.8	0.0	0.0
Consumer Price Index								
Canada (1992=100)	108.6	110.5	113.5	116.8	119.1	121.5	123.9	126.4
(% change)	0.9	1.7	2.7	2.9	2.0	2.0	2.0	2.0
U.S.A. (1982-1984=100)	163.0	166.6	172.2	177.5	182.2	186.9	191.7	196.7
(% change)	1.6	2.2	3.4	3.1	2.6	2.6	2.6	2.6

* European Union less Luxembourg, plus Austria, Finland, Iceland, Norway, Sweden, Switzerland, Turkey, and former Yugoslavia.
** British Columbia housing starts appear in Table 3.

SUPPLEMENTARY TABLE 1 — FIVE-YEAR ECONOMIC FORECAST

1.7 FINANCIAL MARKETS

July 2001

	Actual					
	1998	1999	2000	2001	2002	2003-2005
Canadian Interest Rates (%)						
3-Month Treasury Bills	4.7	4.7	5.5	4.4	4.5	5.0
Long-Term Government Bonds (10 years and over)	5.6	5.7	5.9	5.8	6.1	6.5
United States Interest Rates (%)						
3-Month Treasury Bills	4.8	4.6	5.8	3.6	3.5	4.0
Long-Term Government Bonds (10 years and over)	5.7	6.1	6.0	5.2	5.7	5.8
Real Interest Rates* (%)						
Canadian Treasury Bills	3.8	3.0	3.7	2.0	2.0	3.0
U.S. Treasury Bills	3.2	2.4	3.4	0.7	0.5	1.4
Canadian Long-Term Bonds	4.7	4.0	4.1	3.4	3.6	4.5
U.S. Long-Term Bonds	4.1	3.9	3.6	2.3	2.7	3.2
Exchange Rate (U.S. cents/Canadian $)	67.4	67.3	67.3	65.5	67.1	69.6

* Real interest rates are nominal interest rates minus expected inflation. The real interest rates in this table are based on actual and forecast inflation rates shown in Table 6.

SUPPLEMENTARY TABLE 1 — FIVE-YEAR ECONOMIC FORECAST

1.8 SELECTED GROWTH RATES

July 2001

	Actual			Forecast				
	1998	1999	2000	2001	2002	2003	2004	2005
BRITISH COLUMBIA (%)								
Real GDP	0.9	2.1	3.8e	2.2	3.8	3.3	3.0	2.5
Consumer Price Index	0.3	1.1	1.9	2.0	1.6	1.6	1.6	1.6
Labour Force	0.5	1.4	1.0	1.5	3.0	2.8	2.6	2.5
Employment	0.1	1.9	2.2	1.5	3.0	3.2	2.9	2.5
Unemployment Rate (level)	8.8	8.3	7.2	7.2	7.2	6.8	6.6	6.5
Average Weekly Earnings	1.3	1.1	1.9	2.0	1.8	2.0	2.0	2.0
Personal Income	2.3	2.4	5.3	3.2	3.9	4.2	4.2	3.9
Retail Sales	−2.0	1.9	6.3	4.0	4.2	4.7	3.8	2.4
Corporate Profits	−10.0	23.7	3.9e	5.0	0.0	10.0	10.0	0.0
CANADA (%)								
Real GDP	3.3	4.5	4.7	2.0	2.5	2.5	3.0	3.0
Consumer Price Index	0.9	1.7	2.7	2.9	2.0	2.0	2.0	2.0
Employment	2.7	2.8	2.6	1.6	1.7	2.0	2.0	2.0
Population (on July 1)	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Labour Income	4.7	5.1	7.2	5.0	4.3	5.0	5.0	5.0
U.S.A. (%)								
Real GDP	4.4	4.2	5.0	1.5	2.5	2.5	3.0	3.0
Consumer Price Index	1.6	2.2	3.4	3.1	2.6	2.6	2.6	2.6

e: estimate

SUPPLEMENTARY TABLE 2
INTERPROVINCIAL COMPARISONS OF TAX RATES — 2001
(Rates known as of July 16, 2001)[1]

Tax	British Columbia[2]	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Corporation income tax (per cent of taxable income)[3]										
General Rate	16.5	13.5	17	17	14	9.04/16.25	16	16	16	14
Manufacturing Rate	16.5	13.5	10	17	12	9.04	16	16	7.5	5
Small Business Rate	4.5	5	6	6	6.5	9.04	4	5	7.5	5
Corporation capital tax[4]										
Non-financial	.15	*Nil*	.6	.3/.5	.3	.64	.3	.25/.5	*Nil*	*Nil*
Financial	1.0/3.0	*Nil*	0.7/3.25	3.0	.6/.72/.9	1.55	3.0	3.0	3.0	4.0
Health care premiums[5]										
Individual/family	36/72	34/68	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Payroll tax[6] (per cent)	*Nil*	*Nil*	*Nil*	2.15	1.95	4.26	*Nil*	*Nil*	*Nil*	2.0
Insurance premium tax (per cent)[7]	2-4	2-3	3-4	2-3	2-3.5	2-3	2-3	3-4	3.5	4
Fuel tax (cents per litre)										
Gasoline[8]	11.0	9.0	15.0	11.5	14.7	19.2	10.7	13.5	13.0	16.5
Diesel	11.5	9.0	15.0	10.9	14.3	20.2	13.7	15.4	13.5	16.5
Sales tax (per cent)										
General rate	7	*Nil*	6	7	8	7.5	8	8	10	8
Liquor	10	*Nil*	7	7	12	7.5	8	8	37.5	8
Meals	*Nil*	*Nil*	*Nil*	7	8	7.5	8	8	10	8
Accommodation	8	5	6	7	5	7.5	8	8	10	8
Tobacco tax (dollars per carton of 200 cigarettes)[9]	22.00	14.00	19.70	22.35	9.70	10.60	14.82	16.60	15.90	25.96

[1] Rates shown are those known as of July 16, 2001, and that are in effect for 2001.
[2] British Columbia tax rates shown are those announced in the 2001 Economic and Fiscal Update and which come into effect in 2001.
[3] British Columbia's general rate will be reduced to 13.5 per cent effective January 1, 2002. On April 1, 2002 Alberta's general and manufacturing rates will fall to 11.5 per cent, and the small business rate will be reduced to 4 per cent. On January 1, 2002 Manitoba's general rate will fall to 16.5 per cent, and the small business rate will be reduced to 5 per cent. On January 1, 2002 Ontario's general and manufacturing rates will fall to 12.5 and 11 per cent respectively and its small business rate will be reduced to 6 per cent. In future years Alberta, Manitoba and Ontario plan further reductions in their corporate income tax rates. Quebec's rate on investment income is 16.25 per cent. Other Quebec rates include a "youth fund" tax of 1.6 per cent.
[4] The British Columbia non-financial rate applies to corporations with paid-up capital in excess of $5 million. The rate will be reduced from 0.3 per cent to 0.15 per cent on September 1, 2001 and to 0 per cent on September 1, 2002; Alberta eliminated its capital tax on financial institutions as of April 1, 2001. Ontario's current exemption of $2 million will be replaced by a deduction of $5 million for all corporations effective January 1, 2002; Manitoba has a $5 million exemption level and the higher rate applies to paid-up capital in excess of $10 million; Saskatchewan has a $10 million deduction. Large Saskatchewan resource corporations are assessed a surcharge on the value of Saskatchewan resource sales. Ontario and Quebec have an additional surcharge or compensation tax on financial institutions. A compensation tax may also apply in Quebec.
[5] British Columbia has a two person rate of $64. British Columbia and Alberta offer premium assistance in the form of lower rates or an exemption from premiums for lower income individuals and families.
[6] Provinces with payroll taxes provide payroll tax relief for small businesses.
[7] The lower rate applies to premiums for life, sickness and accident insurance; the higher rate applies to premiums for property insurance including automobile insurance. In Ontario, Quebec and Newfoundland specific sales taxes also apply to insurance premiums, except those related to individual life and health.
[8] Tax rate is for regular fuel used on highways. The British Columbia rate includes 3.25 cents per litre dedicated to the BC Transportation Financing Authority and 1.25 cents dedicated to the BC Ferry Corporation. The rates do not include regional taxes. The Quebec rate includes estimated sales tax.
[9] Includes estimated provincial sales tax where applicable.

SUPPLEMENTARY TABLE 3

INTERPROVINCIAL COMPARISONS OF PROVINCIAL PERSONAL INCOME TAXES PAYABLE[1] — 2001

(Rates known as of July 16, 2001)

Taxable income[2]	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec[3]	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
	Annual provincial taxes payable[4] ($)									
$10,000	59	0	172	102	0	(5)	202	0	0	220
$20,000	791	594	1,247	1,221	708	1,176	1,106	1,084	1,120	1,208
$30,000	1,474	1,529	2,321	2,264	1,287	2,623	2,011	2,068	2,036	2,219
$40,000	2,467	2,473	3,607	3,795	2,152	4,251	3,400	3,509	3,331	3,776
$50,000	3,517	3,473	4,957	5,415	3,076	5,971	4,882	5,004	4,711	5,392
$60,000	4,567	4,473	6,307	7,035	4,088	7,789	6,364	6,513	6,180	7,023
$70,000	5,906	5,473	7,907	8,761	5,603	9,707	7,990	8,180	7,969	8,986
$80,000	7,476	6,473	9,507	10,501	7,344	11,691	9,642	9,847	9,806	10,951
$100,000	10,766	8,473	12,707	13,981	10,826	15,687	12,946	13,499	13,480	14,879
$125,000	14,941	10,973	16,707	18,331	15,178	20,793	17,406	18,083	18,072	19,789
$150,000	19,116	13,473	20,707	22,681	19,531	25,751	21,866	22,668	22,665	24,700
	Provincial personal income taxes as a per cent of taxable income (%)									
$10,000	0.6	0.0	1.7	1.0	0.0	−0.1	2.0	0.0	0.0	2.2
$20,000	4.0	3.0	6.2	6.1	3.5	5.9	5.5	5.4	5.6	6.0
$30,000	4.9	5.1	7.7	7.5	4.3	8.7	6.7	6.9	6.8	7.4
$40,000	6.2	6.2	9.0	9.5	5.4	10.6	8.5	8.8	8.3	9.4
$50,000	7.0	6.9	9.9	10.8	6.2	11.9	9.8	10.0	9.4	10.8
$60,000	7.6	7.5	10.5	11.7	6.8	13.0	10.6	10.9	10.3	11.7
$70,000	8.4	7.8	11.3	12.5	8.0	13.9	11.4	11.7	11.4	12.8
$80,000	9.3	8.1	11.9	13.1	9.2	14.6	12.1	12.3	12.3	13.7
$100,000	10.8	8.5	12.7	14.0	10.8	15.7	12.9	13.5	13.5	14.9
$125,000	12.0	8.8	13.4	14.7	12.1	16.6	13.9	14.5	14.5	15.8
$150,000	12.7	9.0	13.8	15.1	13.0	17.2	14.6	15.1	15.1	16.5

[1] Calculated for a single individual with wage income and claiming credits for Canada Pension Plan and Quebec Pension Plan contributions, Employment Insurance premiums and the basic personal amount. Quebec personal income tax is calculated using the simplified tax system which provides a minimum level of non-refundable credits that is greater than the basic personal credit amount.

[2] Taxable income, total income less allowable deductions, is defined by federal legislation in all provinces except Quebec. In the table, it is assumed that federally defined taxable income is equal to Quebec taxable income.

[3] Quebec residents pay federal tax less an abatement of 16.5 per cent of federal tax. In the table, the Quebec abatement has been used to reduce Quebec provincial personal income tax for comparative purposes.

[4] Includes provincial low income reductions in Manitoba, Ontario, Nova Scotia and Prince Edward Island, provincial surtaxes payable in Ontario, Nova Scotia, Prince Edward Island and Newfoundland and contributions to the Health Services Fund in Quebec. Excludes credits for sales and property taxes.

SUPPLEMENTARY TABLE 4
COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 2001

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland[1]
	($)									
Two Income Family of — $90,000										
1. Provincial Income Tax	5,239	5,235	7,261	7,696	4,571	9,534	7,230	7,451	7,062	8,020
Net Child Benefits	0	0	0	—	0	0	0	0	—	0
2. Property Tax — Gross	2,743	2,740	3,924	4,946	3,788	3,554	2,514	3,247	2,639	1,800
— Net	2,273	2,740	3,924	4,546	3,788	3,554	2,514	3,247	2,639	1,800
3. Sales Tax	1,036	7	905	1,178	1,561	1,818	1,713	1,704	1,806	1,681
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	8,713	8,117	12,315	13,593	10,141	15,194	11,618	12,605	11,702	11,749
6. Health Care Premiums/Payroll Tax	864	816	—	1,935	1,755	3,834	—	—	—	1,800
7. Total Provincial Tax	9,577	8,933	12,315	15,528	11,896	19,028	11,618	12,605	11,702	13,549
8. Federal Income Tax	11,416	11,416	11,416	11,416	11,416	11,416	11,416	11,416	11,416	11,416
9. Net Federal GST	1,587	1,656	1,551	1,516	1,621	1,521	1,499	1,491	1,617	1,471
10. Total Tax	22,580	22,005	25,282	28,460	24,933	31,965	24,533	25,512	24,735	26,436
Two Income Family of Four — $60,000										
1. Provincial Income Tax	2,854	2,657	3,971	3,927	2,505	4,165	3,940	4,072	3,917	4,366
Net Child Benefits	0	114	0	—	0	0	0	0	—	0
2. Property Tax — Gross	2,268	1,974	2,747	3,557	2,721	2,883	1,641	1,903	1,300	1,728
— Net	1,798	1,974	2,747	3,157	2,721	2,883	1,641	1,903	1,300	1,728
3. Sales Tax	807	5	719	947	1,219	1,518	1,361	1,355	1,430	1,343
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	5,624	4,885	7,662	8,204	6,666	8,854	7,103	7,533	6,842	7,685
6. Health Care Premiums/Payroll Tax	864	816	—	1,290	1,170	2,556	—	—	—	1,200
7. Total Provincial Tax	6,488	5,701	7,662	9,494	7,836	11,410	7,103	7,533	6,842	8,885
8. Federal Income Tax	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364	6,364
9. Net Federal GST	1,236	1,340	1,232	1,218	1,266	1,270	1,191	1,186	1,280	1,175
10. Total Tax	14,088	13,405	15,258	17,076	15,466	19,044	14,658	15,083	14,486	16,424
Two Income Family of Four — $30,000										
1. Provincial Income Tax	825	150	954	459	528	(32)	1,207	1,022	1,020	1,319
Net Child Benefits	(536)	(728)	0	—	(383)	(160)	(52)	0	—	0
2. Property Tax — Gross	2,268	1,974	2,747	3,557	2,721	2,883	1,641	1,903	1,300	1,728
— Net	1,798	1,974	2,747	3,157	2,721	2,883	1,641	1,903	1,300	1,728
3. Sales Tax	557	4	506	679	848	1,128	946	952	999	939
4. Fuel Tax	110	90	150	115	147	192	107	135	130	165
5. Provincial Direct Taxes	2,754	1,490	4,357	4,410	3,861	4,011	3,849	4,012	3,449	4,151
6. Health Care Premiums/Payroll Tax	864	816	—	645	585	1,278	—	—	—	600
7. Total Provincial Tax	3,618	2,306	4,357	5,055	4,446	5,289	3,849	4,012	3,449	4,751
8. Federal Income Tax	1,996	1,996	1,996	1,996	1,996	1,996	1,996	1,996	1,996	1,996
9. Net Federal GST	371	540	385	391	398	462	345	351	412	339
10. Total Tax	5,985	4,842	6,738	7,442	6,840	7,747	6,190	6,359	5,857	7,086
Unattached Individual — $25,000										
1. Provincial Income Tax	1,034	926	1,629	1,169	914	1,531	1,428	1,459	1,446	1,559
2. Property Tax	—	—	—	—	—	—	—	—	—	—
3. Sales Tax	402	3	364	509	625	758	687	685	809	680
4. Fuel Tax	110	90	150	115	147	192	107	135	130	165
5. Provincial Direct Taxes	1,546	1,019	2,143	1,793	1,686	2,481	2,222	2,279	2,385	2,404
6. Health Care Premiums/Payroll Tax	432	408	—	538	488	1,065	—	—	—	500
7. Total Provincial Tax	1,978	1,427	2,143	2,331	2,174	3,546	2,222	2,279	2,385	2,904
8. Federal Income Tax	2,360	2,360	2,360	2,360	2,360	2,360	2,360	2,360	2,360	2,360
9. Net Federal GST	310	342	308	317	324	333	293	292	337	287
10. Total Tax	4,648	4,129	4,811	5,008	4,858	6,239	4,875	4,931	5,082	5,551

SUPPLEMENTARY TABLE 4 — *(Continued)*
COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 2001

	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	($)									
Unattached Individual — $80,000										
1. Provincial Income Tax	6,487	5,843	8,499	9,405	6,247	11,962	8,602	8,797	8,648	9,713
2. Property Tax — Gross	1,972	1,848	3,042	3,255	2,536	3,213	2,072	2,475	1,300	1,300
— Net	1,502	1,848	3,042	2,855	2,536	3,213	2,072	2,475	1,300	1,300
3. Sales Tax	1,034	9	900	1,192	1,576	1,678	1,679	1,669	1,977	1,623
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	9,188	7,835	12,666	13,625	10,580	17,141	12,514	13,144	12,120	12,884
6. Health Care Premiums/Payroll Tax	432	408	—	1,720	1,560	3,408	—	—	—	1,600
7. Total Provincial Tax	9,620	8,243	12,666	15,345	12,140	20,549	12,514	13,144	12,120	14,484
8. Federal Income Tax	13,291	13,291	13,291	13,291	13,291	13,291	13,291	13,291	13,291	13,291
9. Net Federal GST	1,590	1,688	1,524	1,463	1,593	1,419	1,469	1,460	1,576	1,420
10. Total Tax	24,501	23,222	27,481	30,099	27,024	35,259	27,274	27,895	26,987	29,195
Senior Couple with Equal Pension Incomes — $30,000										
1. Provincial Income Tax	352	0	1,548	(328)	(287)	283	575	633	582	657
2. Property Tax — Gross	2,268	1,974	2,747	3,557	2,721	2,883	1,641	1,903	1,300	1,728
— Net	1,523	1,974	2,747	3,157	2,721	2,883	1,641	1,903	1,300	1,728
3. Sales Tax	586	7	498	673	870	1,189	1,099	1,066	1,105	1,126
4. Fuel Tax	110	90	150	115	147	192	107	135	130	165
5. Provincial Direct Taxes	2,571	2,071	4,943	3,617	3,451	4,547	3,422	3,737	3,117	3,676
6. Health Care Premiums/Payroll Tax	768	816	—	—	—	—	—	—	—	—
7. Total Provincial Tax	3,339	2,887	4,943	3,617	3,451	4,547	3,422	3,737	3,117	3,676
8. Federal Income Tax	950	950	950	950	950	950	950	950	950	950
9. Net Federal GST	764	796	690	726	748	785	743	714	809	767
10. Total Tax	5,053	4,633	6,583	5,293	5,149	6,282	5,115	5,401	4,876	5,393

Personal Income Tax

- Income tax is based on basic personal credits, applicable provincial credits, and typical major deductions at each income level. Quebec residents pay federal income tax less an abatement of 16.5 per cent of basic federal tax. This abatement has been used to reduce Quebec provincial tax rather than federal tax, for comparative purposes. The two income family of four with $60,000 annual income is assumed to have one spouse earning $40,000 and the other $20,000, the family with $90,000 income is assumed to have one spouse earning $50,000 and the other $40,000, the family with $30,000 is assumed to have each spouse earning $15,000 and each senior is assumed to receive $15,000. All representative families are assumed to have employment income except the senior couple. Contributions to the Quebec Health Services Fund are included in Quebec personal income tax.

Net Child Benefits

- Net child benefits are provincial measures affecting payments to families with children. Provincial child benefit measures are available in British Columbia (BC Family Bonus), Alberta (Family Employment Credit), Saskatchewan (Child Benefit), Ontario (Child Care Supplement for Working Families), Quebec (Integrated Child Allowance), New Brunswick (Child Tax Benefit), Nova Scotia (Child Benefit) and Newfoundland (Child Benefit). In addition, the Alberta government has chosen to vary the amount of the basic federal child tax benefit that their residents receive (shown as a net amount).

Property Tax

- Estimates of property taxes are from a sample of Royal LePage's on-line listings of residential properties for sale. It is assumed that the individual at $25,000 rents accommodation; the family at $30,000 and at $60,000 and the senior couple own bungalows; the family at $90,000 owns a two-storey executive style home; and the single at $80,000 owns a luxury condominium. The homes are assumed to be in a major city for each province. Net property taxes are taxes owing after credits provided through the property tax system are subtracted.

Sales and Fuel Tax Estimates

- Includes sales tax on meals, liquor and accommodation. Estimates are based on expenditure patterns from the 1996 Survey of Family Expenditures. In estimating individual and family taxable consumption, disposable income is reduced by 20 per cent to reflect housing (mortgage and property taxes or rent) costs. The senior couple is assumed to own their home and have no mortgage costs. For each province, disposable income is further reduced by estimated federal income taxes, estimated provincial income taxes and health care premiums if applicable. In addition, the single individual with $80,000 annual income and the family with $90,000 annual income are assumed to have savings equal to 5 per cent of their disposable income. For each family, disposable income is distributed among expenditures using the consumption pattern of a typical family with the relevant characteristics as estimated by the family expenditure survey. The provincial retail sales tax and the federal goods and services tax (GST) components of these expenditures are then calculated. GST estimates have been reduced by the GST credit, where applicable.
- Fuel tax is based on annual consumption: 1,000 litres of unleaded fuel for the single individual at $25,000, the family at $30,000 and the senior couple; others are assumed to consume 1,500 litres.

Health Care Premiums/Payroll Tax

- Health care premiums are levied in British Columbia and Alberta only. Approximately 50 per cent of British Columbia premiums are paid by employers on behalf of their employees, with the remainder paid by individuals, either by employees or by residents who are not employed. Payroll taxes, in the four provinces that levy them, are paid by the employer. The cost of payroll taxes and health care premiums paid by employers on behalf of employees is generally reflected in reduced wages.

Effective Tax Rates

- British Columbia taxes have been calculated using rates in effect for 2001. Taxes for other provinces were calculated using rates that were announced prior to July 16, 2001, and that come into effect during 2001.

SUPPLEMENTARY TABLE 5
REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Actual 1997/98	Actual 1998/99	Actual 1999/00	Actual 2000/01	2001/02 Forecast March 15 Budget	2001/02 Forecast July 30 Update	Annual Rate of Growth 997/98 to 2001/02
	($ millions)						(per cent)
Taxation Revenue:							
Personal income	5,362	5,423	5,839	6,015	6,070	4,935	(2.1)
Corporation income	1,138	1,098	939	1,054	1,245	1,154	0.3
Social service	3,243	3,209	3,338	3,617	3,743	3,664	3.1
Fuel	642	654	470	443	445	416	(10.3)
Tobacco	486	505	498	460	468	463	(1.2)
Property — residential (school purpose)	502	511	529	538	535	541	1.9
Property — business (school purpose)	735	764	758	770	800	800	2.1
Property — rural area	62	61	63	63	65	65	1.2
Property transfer	310	223	245	262	265	275	(3.0)
Corporation capital	406	455	460	459	430	347	(3.8)
Insurance premium[2]	176	195	199	196	209	200	3.2
Hotel room	74	79	86	93	97	97	7.0
Horse racing	4	4	3	—	—	—	(100.0)
	13,140	13,181	13,427	13,970	14,372	12,957	(0.4)
Less: commissions on collection of public funds	(24)	(24)	(24)	(23)	(24)	(24)	—
Less: allowances for doubtful accounts	(13)	(23)	(25)	(14)	(25)	(25)	17.8
Total taxation revenue	**13,103**	**13,134**	**13,378**	**13,933**	**14,323**	**12,908**	(0.4)
Natural Resource Revenue:							
Petroleum and natural gas:							
Natural gas royalties	156	193	328	1,249	1,323	1,323	70.7
Permits and fees	214	106	248	462	351	351	13.2
Petroleum royalties	77	62	94	136	139	139	15.9
Sub-total	447	361	670	1,847	1,813	1,813	41.9
Minerals	52	44	47	53	53	53	0.5
Forests:							
Timber sales	968	815	1,041	821	785	814	(4.2)
Small business forest enterprise program	318	209	269	257	255	255	(5.4)
Logging tax	13	14	24	60	35	18	8.5
Other forests revenue	65	55	58	15	35	63	(0.8)
Sub-total	1,364	1,093	1,392	1,153	1,110	1,150	(4.2)
Water resources	322	306	297	294	301	301	(1.7)
Columbia RiverTreaty	—	16	100	632	831	475	—
Wildlife Act	14	15	15	15	14	14	—
Sub-total	336	337	412	941	1,146	790	23.8
Less: commissions on collection of public funds	(1)	(1)	(1)	(1)	(2)	(2)	18.9
Less: allowances for doubtful accounts	(1)	(5)	(3)	(18)	(10)	(10)	77.8
Total natural resource revenue	**2,197**	**1,829**	**2,517**	**3,975**	**4,110**	**3,794**	14.6

SUPPLEMENTARY TABLE 5 — *Continued*
REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Actual 1997/98	Actual 1998/99	Actual 1999/00	Actual 2000/01	2001/02 Forecast March 15 Budget	2001/02 Forecast July 30 Update	Annual Rate of Growth 997/98 to 2001/02
	($ millions)						(per cent)
Other Revenue:							
Medical Services Plan premiums	882	876	868	895	916	904	0.6
Motor vehicle licences and permits	316	329	336	342	345	345	2.2
Ministry of Attorney General fees	95	106	102	101	104	104	2.3
Real estate earnings of the Crown Land special account	35	44	55	48	71	58	13.5
Coquihalla highway tolls	39	39	41	42	42	42	1.9
Registries Agency fees	37	36	36	36	37	37	—
Vital Statistics Agency fees	10	10	10	10	10	10	—
Ministry of Health fees	24	23	24	21	23	23	(1.1)
Provincial Treasury Operations and Insurance and Risk Management special accounts	26	27	33	22	21	21	(5.2)
Safety inspection fees	17	16	16	16	16	16	(1.5)
Waste management fees	13	12	12	11	12	12	(2.0)
Public gaming licences and permits	18	6	—	—	—	—	(100.0)
Fire Services Act[2]	11	—	—	—	—	—	(100.0)
Property tax collection fees	6	7	7	7	7	7	3.9
Financial Institutions Commission	6	2	2	1	1	1	(36.1)
Other fees and licences	57	36	25	15	18	18	(25.0)
	1,592	1,569	1,567	1,567	1,623	1,598	0.1
Less: commissions on collection of public funds	(73)	(51)	(14)	(7)	(6)	(6)	(46.5)
Less: allowances for doubtful accounts	(19)	(34)	(5)	(17)	(18)	(18)	(1.3)
Sub-total	1,500	1,484	1,548	1,543	1,599	1,574	1.2
Investment earnings	48	51	60	112	70	70	9.9
Miscellaneous:							
Fines and penalties	101	112	108	99	95	85	(4.2)
Maintenance of children[3]	17	10	—	—	—	—	(100.0)
Insurance claim receipts	22	14	13	12	13	13	(12.3)
Other miscellaneous	91	101	114	114	114	122	7.6
	279	288	295	337	292	290	1.0
Less: commissions on collection of public funds	(4)	(4)	(3)	—	(7)	(7)	15.0
Less: allowances for doubtful accounts	—	—	(4)	(19)	(31)	(31)	—
Sub-total	275	284	288	318	254	252	(2.2)
Asset dispositions[4]	24	63	52	—	50	—	(100.0)
Total other revenue	**1,799**	**1,831**	**1,888**	**1,861**	**1,903**	**1,826**	0.4

SUPPLEMENTARY TABLE 5 — *Continued*
REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Actual 1997/98	Actual 1998/99	Actual 1999/00	Actual 2000/01	2001/02 Forecast March 15 Budget	2001/02 Forecast July 30 Update	Annual Rate of Growth 997/98 to 2001/02
	($ millions)						(per cent)
Contributions from Government Enterprises:							
Taxpayer-supported Crown corporations and agencies:							
British Columbia Buildings Corporation	20	2	71	50	16	16	(5.4)
Other	—	12	7	19	2	2	—
Sub-total	20	14	78	69	18	18	(2.6)
Self-supported Crown corporations and agencies:							
Liquor Distribution Branch	609	616	617	642	616	616	0.3
British Columbia Hydro and Power Authority	369	323	343	372	375	346	(1.6)
British Columbia Lottery Corporation	282	369	416	414	429	429	11.1
Other[5]	—	40	—	3	2	2	—
Sub-total	1,260	1,348	1,376	1,431	1,422	1,393	2.5
Total contributions from government enterprises	**1,280**	**1,362**	**1,454**	**1,500**	**1,440**	**1,411**	2.5
Contributions from the Federal Government:							
Canada health and social transfer	1,637	1,968	2,438	2,619	2,631	2,620	12.5
Education (public schools)	75	76	81	74	76	76	0.3
National Training Act	8	7	—	—	—	—	(100.0)
Employability assistance for persons with disabilities	27	35	27	28	27	27	—
Immigration services	22	22	22	22	22	20	(2.4)
Other payments	68	42	41	54	53	55	(5.2)
Total contributions from the federal government	**1,837**	**2,150**	**2,609**	**2,797**	**2,809**	**2,798**	11.1
TOTAL REVENUE	**20,216**	**20,306**	**21,846**	**24,066**	**24,585**	**22,737**	3.0

SUPPLEMENTARY TABLE 5 — *Continued*
REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Actual 1997/98	Actual 1998/99	Actual 1999/00	Actual 2000/01	2001/02 Forecast March 15 Budget	2001/02 Forecast July 30 Update	Annual Rate of Growth 997/98 to 2001/02
	($ millions)						(per cent)
DEDICATED REVENUE COLLECTED ON BEHALF OF, AND TRANSFERRED TO CROWN CROWN CORPORATIONS AND AGENCIES, AND OTHER ENTITIES							
British Columbia Transit[6]	87	94	8	7	8	8	(44.9)
Greater Vancouver Transportation Authority[7] *(TransLink)*	—	—	182	173	196	197	—
BC Transportation Financing Authority[8]	119	124	176	202	203	204	14.4
British Columbia Ferry Corporation[9]	—	—	65	73	74	74	—
Tobacco Tax Amendment Act[10]	—	2	2	2	1	1	—
Rural Area Property Taxes[11]	147	147	149	156	160	168	3.4
Tourism British Columbia[12]	20	20	22	24	25	25	5.7
Oil and Gas Commission[13]	—	6	13	18	15	15	—
Forest Renewal BC[14]	483	177	302	187	140	167	(23.3)
BC Racing Commission[15]	—	—	—	—	14	14	—
Total Dedicated Revenue	**856**	**570**	**919**	**842**	**836**	**873**	0.5

[1] Unless otherwise indicated, figures for prior years have been restated to be consistent with the presentation used in 2001/02. Consolidated revenue fund revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations and agencies, and other public bodies
[2] Beginning in 1998/99, *Fire Services Act* revenue is included in insurance premium tax revenue.
[3] Beginning in 1999/00, maintenance of children revenue is recorded as a recovery or off to the related ministry program expenditure vote.
[4] Includes revenue realized through dispositions of assets resulting from reviews of government properties, agencies and other assets to identify those assets surplus to government's needs.
[5] Includes British Columbia Railway Company, British Columbia Systems Corporation, British Columbia Assets and Land Corporation (WLC Developments Ltd.) and other Crown corporations and agencies.
[6] For 1997/98 and 1998/99, figures include motor fuel tax collected in the Vancouver and Victoria regional transit areas. Effective April 1, 1999, figures include motor fuel tax collected in the Victoria regional transit area only (2.5 cents/litre on clear gasoline and motive fuel), as a result of the creation of the Greater Vancouver Transportation Authority *(TransLink)*.
[7] Effective April 1, 1999, includes 8 cents/litre on clear gasoline and motive fuel (4 cents/litre of which was previously collected on behalf of British Columbia Transit) and social service tax on parking in the Vancouver transit area. Effective April 1, 2001, the tax transferred increased to 9 cents/litre of clear gasoline and motive fuel. The 2001/02 figure includes the additional 1 cent/litre.
[8] Includes motor fuel tax and social service tax on short-term rentals of passenger vehicles. The 1999/00 figure is based on a transfer of 3 cents/litre on clear gasoline and motive fuel (up from 2 cents/litre effective June 1, 1999). The 2000/01 and 2001/02 figures are based on a transfer of 3.25 cents/litre on clear fuels.
[9] Includes 1 cent/litre of motor fuel tax for the period April 1, 1999 to September 30, 1999, and 1.25 cents/litre effective October 1, 1999.
[10] Includes tobacco tax collected on behalf of the Cowichan Tribes in respect of the Cowichan Tribes Agreement.
[11] Includes local taxes collected on behalf of local governments in rural areas.
[12] Includes 1.65 percentage points of the 8 per cent provincial hotel room tax.
[13] Includes fees collected under the *Petroleum and Natural Gas Act* and the *Pipeline Act*, and a levy assessed under the *Oil and Gas Commission Levy Regulation*.
[14] Includes incremental stumpage and royalty revenue resulting from changes to rates introduced under the provincial government's Forest Renewal Plan on and after May 1, 1994.
[15] In previous years, this was recorded as a recovery to vote.

SUPPLEMENTARY TABLE 6
EXPENSE BY FUNCTION[1]
CONSOLIDATED REVENUE FUND

	Actual 1997/98	Actual 1998/99	Actual 1999/00	Actual 2000/01	July 30 Update 2001/02	Annual Rate of Growth 1997/98 to 2001/02
	($ millions)					(per cent)
Health	7,224	7,479	8,017	8,745	9,634	7.5
Social services	3,048	3,031	3,011	3,126	3,370	2.5
Education	5,766	5,825	5,975	6,357	6,803	4.2
Protection of persons and property	979	1,071	1,110	1,101	1,276	6.8
Transportation	770	790	1,697[2]	611	667	(3.5)
Natural resources and economic development	825	932	962	1,028	1,100	7.5
Other	473	372	359	341	768[3]	12.9
General government	216	249	246	265	309	9.4
Debt servicing	834	838	835	889	823	(0.3)
TOTAL EXPENSE[4]	**20,135**	**20,587**	**22,212**	**22,463**	**24,750**	**5.3**

[1] Expense by function is presented on a basis to more closely follow the presentation used by Statistics Canada. Unless otherwise indicated, figures for previous years have been restated to be consistent with the presentation used for 2001/02.
[2] Includes forgiveness of $1.08 billion of debt owed to the government by British Columbia Ferry Corporation.
[3] The Contingencies vote is assigned to Other in the 2001/02 Budget Estimates, but is allocated to functions according to specific expenditures in prior years.
[4] Adjustments to government pensions are proportionally allocated to functions. This includes the amortization of the change to the unfunded pension liability and adjustments resulting from a change to pension accounting policy introduced in 1999/00. The effect of pension joint trusteeship is not shown as expenditures but as an adjustment to the summary accounts balance.

SUPPLEMENTARY TABLE 7
PROVINCIAL DEBT SUMMARY[1]

As at March 31	Actual 1998	Actual 1999	Actual 2000	Actual 2001	2002 March 15 Budget	2002 July 30 Update
	($ millions unless othwerwise indicated)					
Taxpayer-supported debt						
Provincial government direct operating	11,488	12,190	13,833	12,069	11,736	14,142
Education facilities[2]						
Schools	2,990	3,261	3,609	3,880	4,201	4,130
Post-secondary institutions	1,362	1,336	1,369	1,383	1,481	1,475
	4,352	4,597	4,978	5,263	5,682	5,605
Health facilities[2]	1,417	1,282	1,451	1,780	2,074	2,021
Highways, ferries and public transit						
BC Transportation Financing Authority	1,089	1,433	1,843	2,197	2,597	2,559
British Columbia Ferry Corporation	795	973	24	21	71	58
British Columbia Transit	1,579	59	79	75	84	82
Public transit[2]	—	987	952	948	941	941
SkyTrain extension[2]	—	133	488	836	1,170	1,144
Rapid Transit Project 2000 Ltd.	—	56	101	114	—	—
	3,463	3,641	3,487	4,191	4,863	4,784
Other						
British Columbia Buildings Corporation	735	715	615	610	617	614
552513 British Columbia Ltd. (Skeena Cellulose)[3]	—	—	—	337	—	356
Social housing[4]	175	183	205	265	329	281
Homeowner Protection Office	—	11	34	71	114	82
577315 British Columbia Ltd. (Western Star Trucks Holdings Ltd.)	—	—	62	—	—	—
Universities and colleges – fiscal agency loans	144	137	130	124	121	121
Student assistance loans[5]	273	287	267	159	25	121
Other[6]	104	133	92	84	109	93
	1,431	1,466	1,405	1,650	1,315	1,668
Total taxpayer-supported debt	**22,151**	**23,176**	**25,154**	**24,953**	**25,670**	**28,220**
Self-supported debt						
Commercial Crown corporations and agencies:						
British Columbia Hydro and Power Authority	7,234	7,474	6,945	6,852	6,960	6,654
British Columbia Railway Company	503	607	655	603	602	597
552513 British Columbia Ltd. (Skeena Cellulose)[3]	157	221	280	—	327	—
Columbia Basin Power Company[7]	95	94	94	93	124	118
Columbia Power Corporation	—	—	—	20	81	87
Liquor Distribution Branch	3	3	3	2	2	2
	7,992	**8,399**	**7,977**	**7,570**	**8,096**	**7,458**
Warehouse borrowing program	**212**	**658**	**1,320**	**1,312**	**600**	**600**
Total self-supported debt	**8,204**	**9,057**	**9,297**	**8,882**	**8,696**	**8,058**
Forecast allowance	**—**	**—**	**—**	**—**	**300**	**500**
Total provincial debt	**30,355**	**32,233**	**34,451**	**33,835**	**34,666**	**36,778**
Total provincial debt as a per cent of GDP	26.7%	28.3%	29.0%	26.9%	26.6%	28.2%
Taxpayer-supported debt as a per cent of GDP	19.5%	20.3%	21.2%	19.9%	19.7%	21.7%

[1] Debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable. Figures for earlier years have been restated to conform with the presentation used for fiscal 2001/02.

[2] Represents government direct debt incurred for capital financing purposes.

[3] Based on the outlook for world pulp prices and their potential impact on 552513 British Columbia Ltd. (Skeena Cellulose Inc.), the company's debt was reclassified as being taxpayer-supported in 2000/01. As the province is not the sole shareholder of Skeena Cellulose Inc., a portion of this debt may be attributable to the minority shareholder.

[4] Includes the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.

[5] During the period 1995/96 to 1999/00 only an estimate for loan defaults had been included as government guarantees for student loans. Actual amounts have been restated to add the following guaranteed loans: 2000/01 — $129 million, 1999/00 — $224 million, 1998/99 — $226 million and 1997/98 — $187 million. The March 15 Budget was not restated for this change.

[6] Includes the British Columbia Assessment Authority, Pacific Racing Association, Victoria Line Ltd., local governments, loan guarantees issued under economic development and home mortgage assistance programs, and other taxpayer-supported agencies.

[7] A joint venture of the Columbia Power Corporation and Columbia Basin Trust.

SUPPLEMENTARY TABLE 8
KEY DEBT INDICATORS

	(For fiscal year ending March 31)					
					2002	
	1998	1999	2000	2001	March 15 Budget	July 30 Update
Debt to revenue (per cent)						
Total provincial	99.2	103.0	102.3	83.3	80.1	95.2
Taxpayer-supported	94.2	99.5	101.5	90.1	93.7	109.0
Debt per capita ($)[1]						
Total provincial	7,665	8,062	8,553	8,326	8,428	8,972
Taxpayer-supported	5,594	5,797	6,245	6,140	6,241	6,885
Debt to GDP (per cent)[2]						
Total provincial	26.7	28.3	29.0	26.9	26.6	28.2
Taxpayer-supported	19.5	20.3	21.2	19.9	19.7	21.7
Interest bite (cents per dollar of revenue)[3]						
Total provincial	7.6	7.8	7.5	6.4	6.1	6.8
Taxpayer-supported	7.0	7.4	7.2	6.8	6.7	7.4
Interest costs ($ millions)						
Total provincial	2,319	2,452	2,528	2,604	2,622	2,616
Taxpayer-supported[4]	1,656	1,723	1,785	1,871	1,841	1,913
Interest rate (per cent)[5]						
Taxpayer-supported	7.6	7.6	7.4	7.5	7.3	7.2
Background Information:						
Revenue ($ millions)						
Total provincial[6]	30,593	31,294	33,679	40,609	43,279	38,624
Taxpayer-supported[7]	23,525	23,285	24,784	27,681	27,394	25,898
Total debt ($ millions)[8]						
Total provincial	30,355	32,233	34,451	33,835	34,666	36,778
Taxpayer-supported[9]	22,151	23,176	25,154	24,953	25,670	28,220
Provincial GDP ($ millions)[10]	113,596	113,945	118,783	125,690	130,140	130,190
Population (thousands at July 1)[11]	3,960	3,998	4,028	4,064	4,113	4,099

[1] The ratio of debt to population (e.g. 2002 debt divided by population at July 1, 2001).
[2] The ratio of debt outstanding at fiscal year end to provincial nominal gross domestic product (GDP) for the calendar year ending in the fiscal year (e.g. 2002 debt divided by 2001 GDP).
[3] The ratio of interest costs (less sinking fund interest) to revenue. Figures include capitalized interest expense in order to provide a more comparable measure to outstanding debt.
[4] The March 15 Budget amount excluded capitalized interest for the *SkyTrain* extension. The July 30 Update includes this interest cost.
[5] Weighted average of the cost of all outstanding debt issues.
[6] Includes revenue of the consolidated revenue fund plus revenue of all Crown corporations and agencies.
[7] Excludes revenue of commercial Crown corporations and agencies.
[8] During the period 1995/96 to 1999/00 only an estimate for loan defaults had been included as government guarantees for student loans. Actual amounts have been restated to add the following guaranteed loans: 2000/01 — $129 million, 1999/00 — $224 million, 1998/99 — $226 million and 1997/98 — $187 million. The March 15 Budget was not restated for this change.
[9] Excludes debt of commercial Crown corporations and agencies and funds held under the province's warehouse borrowing program.
[10] GDP for the calendar year ending in the fiscal year (e.g. GDP for 2001 is used for the fiscal year ending March 31, 2002).
[11] Population at July 1st within the fiscal year (e.g. population at July 1, 2001 is used for the fiscal year ending March 31, 2002).

BRITISH COLUMBIA

BACKGROUNDER

July 30, 2001 Ministry of Finance

TAX CUTS AND FISCAL CONTROLS DETAILED

Today's economic and fiscal update underscored British Columbia's serious fiscal challenges and outlined measures to restore the province's economic vitality through tax relief and better fiscal management by government.

Business Tax Cuts

Effective tomorrow, production machinery and equipment purchased by eligible manufacturers – as well as logging, mining and energy-sector businesses – will be exempt from provincial sales tax. For many years, British Columbia was the only province to apply its sales tax to these assets without providing a significant offset. The exemption replaces a three per cent investment tax credit introduced last year.

The general corporation capital tax will be phased out over two years. The rate will be cut in half to 0.15 per cent on Sept. 1 and eliminated one year later. This tax, introduced in 1992, has been a serious impediment to investment from overseas, and small businesses have paid this tax indirectly through their rent.

The general corporation income tax rate will fall to 13.5 per cent from 16.5 per cent on Jan. 1. B.C.'s rate is currently among the highest in Canada. The government will strive to keep the rate competitive in the years ahead.

To support the use of British Columbia as a transportation gateway, the domestic jet fuel tax rate will be reduced to two cents per litre from five cents on Aug. 1. This will align the province's domestic rate with those of competing jurisdictions and that charged on international flights. In addition, the tax rate on aviation fuel will fall to two cents a litre from three cents a litre. These cuts will make Vancouver International Airport more competitive and assist regional airports by lowering the cost of flights within British Columbia.

The tax on bunker fuel, which is used to run large ships, ends on Aug. 1. British Columbia has been one of very few jurisdictions that impose such a tax. Eliminating it will allow British Columbia ports to supply more fuel to visiting ships and make the province more attractive to cruise-ship operators.

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To encourage mining exploration, British Columbia will introduce a 20 per cent flow-through share credit modelled after a federal one. The existing mineral exploration tax credit will remain for companies and individuals that do use flow-through shares to finance exploration.

In addition, business and individuals will benefit from an increase in the passenger vehicle surtax threshold. Effective July 31, the threshold will be raised for the first time since 1994. Applying the surtax to vehicles costing over $47,000 instead of $32,000 will increase the purchasing power of individuals and businesses who need trucks, passenger vans and other vehicles.

- more -

LEGISLATIVE LIBRARY
VICTORIA BC JUL 31 2001

Fiscal Management

Over and above the $9.3 billion in promised health care funding, the government has added $45 million for Pharmacare and preserved the K-12 education budget of $4.8 billion. To sustain health care and education over the long term, the province will use the interim measures announced today to build a comprehensive, three-year fiscal plan for next year's budget.

A core services review will examine every government program and service to ensure resources are effectively applied. Once the review is complete, the government will publish three-year budgets and service plans to outline what British Columbians can expect from government, including detailed strategies, targets and costing for programs and services.

The government will provide health regions, hospitals, school boards and post-secondary institutions with three-year funding commitments, to foster certainty in planning and delivery. The Waste Buster Web site will allow British Columbians to identify unnecessary red tape and government waste, and will require the relevant ministries to respond within a set period.

Legislation Supporting Stronger Fiscal Management

The Balanced Budget and Ministerial Accountability Act mandates a balanced budget by 2004/05. Under the act, the government will withhold 20 per cent of cabinet ministers' ministerial salaries starting next year. A minister will be able to earn back 10 per cent if his or her ministry meets its budget target. The other 10 per cent will be paid out only if the government as a whole meets its budget target.

The Budget Transparency and Accountability Act has been amended to ensure the government moves to implement generally accepted accounting principles. In addition, it forbids the use of special warrants, except when a natural disaster or the timing of an election necessitates them. Special warrants allow government to authorize spending in excess of the provincial budget without seeking the approval of the legislature.

In addition, the BTAA makes tabling of the budget on the third Tuesday in February mandatory and requires ministry service plans – letting taxpayers know what they will get for their money – to be tabled with the budget.

Four other existing statutes – the Income Tax Act, Corporation Capital Tax Act, Social Service Tax Act and Motor Fuel Tax Act – are being amended via two bills introduced to implement the government's tax-cutting initiatives, including the personal income tax cut announced June 6.

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Contact: Ministry of Finance
Communications Branch
250 387-3347
www.gov.bc.ca/fin

Information on consumption tax changes:
Consumer Taxation Branch
604 660-4524 or 1 877 388-4440
www.rev.gov.bc.ca/ctb

BRITISH COLUMBIA

FACTSHEET

July 30, 2001

Ministry of Finance

TAX CUT FACT SHEET

Personal Income Tax Cuts

- On June 6, 2001, the new provincial government announced that British Columbia taxpayers would begin to benefit from a 25 per cent cut in provincial personal income tax. The cuts will be introduced in two stages, with most British Columbia taxpayers receiving the full cut in their provincial personal income taxes starting July 1, 2001. By January 2002, B.C. will have the lowest base personal income tax rate in Canada for the bottom two brackets.

- Personal income tax brackets have been cut as follows:

British Columbia Personal Income Tax Brackets and Rates

		Tax rates 2001		2002
Tax bracket	Taxable income range*	Pre-July 1, 2001	July 1, 2001**	New**
1	$1 to $30,484	8.4%	7.3%	6.05%
2	$30,484 to $60,969	11.9%	10.5%	9.15%
3	$60,969 to $70,000	16.7%	13.7%	11.7%
4	$70,000 to $85,000	18.7%	15.7%	13.7%
5	Over $85,000	19.7%	16.7%	14.7%

*Brackets are indexed to provincial inflation.
**Rates are in effect from Jan. 1 to Dec. 31 of each year.

- The top marginal tax rate will be the second lowest in Canada by Jan. 2, 2002. The rate will drop from 48.7 per cent to 43.7 per cent. Without the cuts, the province would have had the highest rate.

Business Tax Cuts

- On July 30, 2001, government announced it would eliminate or reduce several business-related taxes to increase investment, revitalize industries like logging, mining and transportation, strengthen emerging sectors such as high-technology and break down other barriers to economic growth. These tax changes will inject $248 million into the provincial economy this fiscal year.

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- Effective July 31, production machinery and equipment purchased by eligible manufacturers and by businesses in the logging, mining, and energy sectors will be exempt from provincial sales tax. The exemption replaces a three per cent tax credit introduced last year and will save businesses $87 million this fiscal year.

- The corporate capital tax on non-financial institutions will be phased out over two years. The rate will be cut in half from 0.3 per cent to 0.15 per cent on Sept. 1 and eliminated entirely on Sept. 1, 2002. The move will free up more than $100 million – and leverage significant new investment in our province. It will also bring B.C. back in line with most of the developed world, where capital taxes are recognized as disincentives to growth.

- To make B.C.'s taxes more competitive, the general corporate income tax rate will fall by three full percentage points to 13.5 per cent on Jan. 1, 2002. The government will also strive to keep the rate competitive in the years ahead.

- To further encourage mineral exploration, British Columbia will introduce a new 20 per cent flow-through share tax credit. The provincial credit will be modelled on the 15 per cent federal credit introduced in October 2000 and will be in addition to the federal credit. Companies that don't use flow-through shares will still be able to use the existing mineral exploration tax credit.

- To strengthen the transportation sector, the domestic jet fuel tax rate will be reduced from five cents to two cents per litre on Aug. 1. The cut will bring B.C.'s domestic rate in line with the rate on international flights, and with the rates charged by our competitors. Government will also reduce the tax rate on aviation fuel from three cents a litre to two cents a litre.

- On July 31, the maximum sales tax rebates available for the purchase or lease of eligible factory manufactured alternative fuel vehicles and buses will increase to $1,000 from $500 for vehicles and to $10,000 from $5,000 for buses.

- The seven per cent tax on bunker fuel, used to run large ships, will end July 31. This will increase the likelihood that ships visiting British Columbia will refuel here, as well as help attract more cruise ship business.

- In addition, business and individuals will benefit from an increase in the passenger vehicle surtax threshold. Effective July 31, the threshold will be raised for the first time since 1994. Applying the surtax to vehicles costing over $47,000 instead of $32,000 will increase the purchasing power of individuals and businesses who need trucks, passenger vans and other vehicles.

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BRITISH COLUMBIA

NEWS RELEASE

For Immediate Release
17/01
July 30, 2001

Ministry of Finance

TAX RELIEF, SOUND FISCAL MANAGEMENT TO BOOST ECONOMY

VICTORIA – British Columbia's public services depend on a healthy economy, which demands a competitive tax system and better fiscal management, Minister of Finance Gary Collins said today. To that end, the minister announced a business tax cut package to complement the 25 per cent personal income tax cut unveiled in June and laid out a fiscal management strategy with his fiscal update for 2001-02.

"Only a province with a vital, vibrant economy can afford high-quality public health and education," said Collins. "That's why it's so essential to get our economy back on track."

Collins noted that, since the March 15 budget, the provincial revenue projection has fallen by $1.85 billion, partly due to focused tax reductions as well as lower energy and electricity prices and a slowing U.S. economy. At the same time, projected expenditures have risen $455 million, mainly because the government disclosed a number of expenditures, including Pharmacare, that weren't fully recognized in the budget. As a result, the summary accounts deficit stands at $1.5 billion.

"If we don't do something now, over time B.C. will wither away and end up being a have-not province, without the strength to provide quality public services," said Collins. "Today, we're moving forward with another key to prosperity – tax reductions designed to increase investment, revitalize industries like logging, mining and transportation and strengthen emerging sectors like high tech."

Details of today's tax cuts, which will inject $248 million back into the economy this year, include:

- Effective July 31, production machinery and equipment bought by eligible manufacturers – and by logging, mining and energy-sector businesses – will be exempt from provincial sales tax. This will replace the existing investment tax credit for an overall saving to business of $87 million this year.
- The corporate capital tax rate on non-financial institutions will be cut in half on Sept. 1, saving businesses $100 million this year. This tax will be eliminated one year later.
- The corporation income tax rate falls to 13.5 per cent from 16.5 per cent on Jan. 1, 2002, and the government will strive to keep the rate competitive in the future.
- To help the province's airports, on Aug. 1, the domestic jet fuel tax rate will fall to two cents a litre from five and the aviation fuel rate, two cents a litre from three.
- On Aug. 1, the seven per cent tax on bunker fuel will be eliminated, which will make British Columbia ports more attractive to cruise ships and other large vessels.

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- To encourage exploration for new mines, on July 31, British Columbia will introduce a 20 per cent flow-through share credit modelled on a similar federal credit. The existing mineral exploration tax credit will remain for those who don't use flow-through shares.
- As of tomorrow, the threshold at which the passenger vehicle surtax is introduced will be $47,000 – up from $32,000.

"I believe these reductions, combined with our personal tax cuts and other policy and regulatory changes, will boost B.C.'s economy this year and set the stage for even more significant growth next year," said Collins. "These business tax cuts are a sound investment in our future that will pay dividends. And anyone who doubts that only has to look at the impact of our personal tax cut."

On June 6, the government announced a 25 per cent cut in provincial personal income tax. Since then, the Conference Board of Canada has reported a 20 per cent increase in its B.C. consumer confidence index, compared to a three per cent national rise.

After reiterating the government's commitment to preserving the health and education budgets presented in March, the minister outlined building blocks on which the government will construct a comprehensive, three year fiscal plan to be introduced with next year's budget. These measures include the government's core services review, which will examine every program and service to ensure public resources are focused on the most important needs, and the introduction of key pieces of legislation.

Key legislation introduced today includes the Balanced Budget and Ministerial Accountability Act, which ties ministerial salaries to budget targets and requires a balanced budget by 2004-05. As well, the amended Budget Transparency and Accountability Act will see the province move to implement generally accepted accounting principles and will ban the use of special warrants in all cases but natural disasters and post-election periods.

"With all its advantages, British Columbia should be leading the country in economic growth," said Collins. "With sound fiscal management, clear priorities and bold, innovative changes, we can truly deliver on the promise of a new era of hope and prosperity for all of us, in the best province, in the best country, anywhere in the world."

The finance minister also tabled the public accounts, debt statistics and preliminary financial and economic review reports. The public accounts are audited financial results for the last fiscal year. The debt statistics report provides detailed information for the 2000-01 fiscal year on the makeup of the provincial debt and how government manages it. The preliminary financial and economic review provides a description of the province's economic performance in 2000 and explains the financial performance of the government and Crown corporations for the 2000-01 fiscal year.

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Information on consumption tax changes:
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ECONOMIC AND FISCAL UPDATE 2001
LEGISLATION SUMMARY

TITLE OF BILL

Bill 4 ***Balanced Budget and Ministerial Accountability Act***

Sponsoring Minister

Honourable Gary Collins
Minister of Finance

Purpose

- This bill:
  - provides for salary holdbacks for Cabinet Ministers to help ensure the achievement of fiscal and other results, including the prohibition of annual deficits commencing with the 2004/05 fiscal year; and
  - repeals the *Balanced Budget Act.*

Summary of the Main Provisions

Government's Fiscal Accountability

- This *Act*:
  - re-establishes the prohibition against annual budget deficits commencing in 2004/05;
  - sets no limits on budgeted deficits until 2004/05, but does require that any budgeted deficit until 2004/05 not be exceeded;
  - requires that, in years when a surplus is budgeted, at least 50 per cent of that surplus be achieved.

Individual Ministerial Accountability

- This *Act* establishes accountability for all Ministers (including the Premier):
  - for expenses of the Consolidated Revenue Fund for which they are responsible (Ministry and other appropriations);
  - in the case of the Minister of Provincial Revenue, for achieving specified revenue targets; and
  - in the case of the Ministers without those responsibilities (i.e. Ministers of State) for achieving performance targets specified by Treasury Board.

Penalty for Non-Compliance

This *Act* establishes a salary holdback of 20 per cent for members of the Executive Council, which is divided between collective responsibility for achieving the government's bottom line objectives (10 per cent) and individual responsibility for achieving their fiscal or performance targets (10 per cent).

Other

This *Act* repeals the existing *Balanced Budget Act* when the new *Act* is passed; the other provisions of the new *Act* take effect April 1, 2002.

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ECONOMIC AND FISCAL UPDATE 2001
LEGISLATION SUMMARY

TITLE OF BILL

Bill 5 ***Budget Transparency and Accountability Amendment Act***

Sponsoring Minister

Honourable Gary Collins
Minister of Finance

Purpose

- This bill:
  - makes amendments to the *BTAA* and the *Financial Administration Act* (*FAA*) regarding the overall government accountability framework.
  - repeals the *Environment and Sustainability Statutes Amendment Act (ESSAA)*, 2001 (which consisted of several amendments to the *Auditor General* Act and the *Budget Transparency and Accountability Act [BTAA]*); and

Summary of the Main Provisions

Key Provisions for the Accountability Framework

- the elimination of special warrants (which provide funding without prior legislative approval) for all but (i) natural disasters, and (ii) the period surrounding an election;
- the adoption of generally accepted accounting principles (GAAP) as the mandatory basis for government accounting policies, and the establishment of an accounting advisory committee to advise on the implementation of GAAP;
- the disclosure of all material assumptions and policy decisions underlying the three-year fiscal projections in the budget;
- the establishment of a fixed budget date (the third Tuesday in February) which can only be delayed in the case of an election; and the advancement, by a month and a half, of the legislature's pre-budget public consultation process to reflect the earlier budget date;
- the addition, in service plans and reports, of a signature by the responsible Minister, indicating personal accountability for the plan and the results;
- changes to the date when ministry and Crown entity service plans are to be filed, from April 30 to budget day, to provide a closer link between government's fiscal plans with what is to be accomplished by the budget;
- the suspension, until the 2002/03 budget, of the requirement for a government strategic plan and for ministry and Crown service plans.

ECONOMIC AND FISCAL UPDATE 2001
LEGISLATION SUMMARY

TITLE OF BILL

Bill 2 – Taxation Statutes Amendment Act 2001

Sponsoring Minister

Honourable Gary Collins
Minister of Finance

Purpose

This bill amends 4 statutes to implement the government's tax cut initiatives: the Income Tax Act, the Corporation Capital Tax Act, the Social Service Tax Act and the Motor Fuel Tax Act.

Summary of Main Taxation Provisions

Income Tax Act

- This Act is amended to:
  - implement the 25 percent personal tax cut announced on June 6, 2001;
  - reduce the general corporate income tax rate to 13.5 percent from the current 16.5 percent rate, effective January 1, 2002;
  - introduce a new BC Mining Flow-through Share Tax Credit;
  - limit the Manufacturing and Processing Investment Tax Credit to property acquired before July 31, 2001

Corporation Capital Tax Act

- This Act is amended to:
  - phase out the tax on non-financial corporations by reducing the tax rate to 0.15 percent effective September 1, 2001 and eliminating the tax on September 1, 2002.

Social Service Tax Act

- This Act is amended to:
  - provide an exemption for purchases/leases of eligible production machinery and equipment by eligible manufacturers and persons regularly engaged for commercial purposes in:
    - logging;
    - the exploration for and development of coal and mineral mines; and
    - the exploration for, discovery and development of, oil and natural gas.
  - increase the price threshold at which the surtax on expensive vehicles applies from $32,000 to $47,000.

- A regulation under the Act is amended to increase the maximum rebate of tax for the purchase or lease of eligible factory manufactured alternative fuel vehicles from $500 to $1,000 for alternative fuel passenger vehicles, and from $5,000 to $10,000 for alternative fuel buses.

Motor Fuel Tax Act

- This Act is amended to:
  - reduce the domestic jet fuel tax rate to 2 cents per litre from the current rate of 5 cents per litre;
  - lower the aviation fuel tax rate to 2 cents per litre from 3 cents per litre; and
  - eliminate the tax on marine bunker fuel.

- A regulation under the Act is added to introduce a tax exemption for PuriNox motor fuel, a new cleaner-burning diesel/water emulsion that is an alternative to conventional diesel fuel.